MONEY-MAKING
IN STOCKS AND SHARES

MONEY-MAKING IN STOCKS AND SHARES

A POPULAR GUIDE FOR INVESTORS AND SPECULATORS

BY

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"*Short Story Writing and Free-Lance Journalism*," "*The Convict of To-day*," "*The Truth About Borstal*," "*A Singular People*," "*With Kitchener in Cairo*," "*The Fleet from Within*," "*The Truth About the Dardanelles*." etc.

Written by a Client for Clients

SECOND EDITION

LONDON
SIR ISAAC PITMAN & SONS, LTD.
PARKER STREET, KINGSWAY, W.C.2
BATH, MELBOURNE, TORONTO, NEW YORK
1927

To the Jobber
who didn't make
"a Turn"

PRINTED IN GREAT BRITAIN
AT THE PITMAN PRESS, BATH

PREFACE TO SECOND EDITION

It is, needless to say, a matter of some satisfaction to me that I am called upon to write an introduction to a new edition of *Money Making in Stocks and Shares* a few days after the book was first offered to the public.

Not only the public, but the experts in the financial and general Press, have accorded the book a warmer welcome than I imagined possible.

The purpose of *Money Making in Stocks and Shares*—to give in simple phraseology and from first-hand knowledge a guide to investors—has been fully understood and, if I may say so, appreciated by those who have done me the honour of reading what I have written. Had I chosen another title for the book it would have been "Stock Exchange Transactions Without Tears," although *Money Making in Stocks and Shares* is justified even if it does no more than *save* money for those who heed the advice I offer.

There are assuredly too many tears, and too much hair-tearing in transactions which are straightforward enough once the rules are known. It is a curious fact that the man or woman who is prepared to risk his or her money seems to be unable or unwilling to find time to read up dry-as-dust rules which govern their investments.

Knowing this, my idea was to dress up the bare facts and figures in as interesting a guise as possible.

That I am led to hope I have succeeded in giving them life as well as interest is, as I say, a matter of considerable satisfaction to me.

S. A. M.

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INTRODUCTION

"WHY don't you write a book for the average small investor?" a broker friend said to me some time ago, fingering one more letter from a client of his who was asking the usual questions. "You're a writer, and you know the ropes. If you write down in clear, simple terms about your experiences with brokers, it would be a help to us—and to those who wish to deal with us. Instead of our having to repeat the same advice, the same explanation, to every Tom, Dick, or Harry who has a flutter in stocks and shares, we might refer them to a little work by a man who has been through the mill himself!"

He didn't say it all in one breath, nor in those exact terms. Yet they echoed what other men in Capel Court had said to me. They knew I wrote for the man in the street, and they also knew that I had spent many years and much money trying to bring off a coup.

Fascinating but Heartbreaking.

A most fascinating if somewhat heartbreaking pastime! Certainly no other study of mine has ever been so full of deep interest and—deeper pitfalls! Day after day I found myself willy-nilly directing my steps to Throgmorton Street instead of Fleet Street, and morning after morning I stood about the precincts of the House, mixing with the most varied types of stock-brokers and jobbers, chaffing, ragging, doing a not inconsiderable amount of business, snatching profits, cutting losses!

It was always "shop." At morning coffee, at the scratch lunch, and the long drawn out cup of tea and Bath-bun after the House was closed, it was ever the same—

"What did Eagles close at ?"

"Some good buying of Dutch to-day."

"Nigerians are on the move. Get yourself some . . ."

"I don't like the crowd behind . . ."

"I heard of a good thing to-day. Buy yourself a few . . . . ."

The Value of Experience.

Tips ! Do you know that when—but we shall come to that later !

To experience things first-hand, and then write about them, has always proved a fascination to me. Theorizing I have left to the great academic scholars ! To me an hour of practice is worth a library of surmise ! And in the matter of stocks and shares particularly, no one is actually in a position to offer advice unless he himself has passed through the long and bewildering Heartbreak Lane, as well as through Rosy Row. Having been through both places I claim to *know.* Nowhere else are well-thought out theories and highfalutin hypotheses so remorselessly blown to the winds as in that seeming backwater of the City—Throgmorton Street.

Blunders of Inexperience.

The actual labour involved in compiling this book I put down on the credit side of my personal balance sheet, for I have enjoyed going over my early stupid mistakes—mistakes which I hope the reader will be

able to avoid. I do not regret one single moment of the time spent around Capel Court. Some of my experiences have been sad, many of them joyous, and not a few expensive.

Many of my blunders are amusingly obvious to me now, but so are the errors of youth to an old man. If only we could have a second life in order to make use of the experience gained in the first!

Yet who would venture to predict that even a second life would be free from mistakes? When I lost my first fortune I vowed never to touch another stock or share unless it had the hall-mark of British Government security. "If I could only get my money back again!" By persevering to the end, and with the vital piece of luck—I did get it all back, and a good deal more. Did I carry out my promise to myself? I did not. I bought more stocks than ever—losing on some, making on others. But with the experience I had gained I was now able to mix knowledge and common-sense with my impetuosity.

Never Job Backwards.

Nothing seems more futile to the broker than to "job backwards"—which means: nothing is so silly as to hold inquests *after* the event, and to surmise on what one *might* have done. Yet the fact remains that had I known of the pitfalls which beset the beginner I should not have had to wait till my second innings before making a score. I pass on to the reader what these snags were, and it is for him to profit by it or not.

All I dare hope is that the adviçe which I venture to offer to the "tenderfoot" will help him over the stiles

here and there—even if he insists upon mixing the metaphor and going home to burn his own fingers.

Incidentally, I should like to think that this well-meant little work may enable my friend, the stock-broker, to follow, even if he does not altogether appreciate, the point of view of that strange hunter after gold—the client. After all, it isn't a bad thing to let Throgmorton Street know how it all seems to the client.

Common-sense Hints.

Finally, may I say that I have not set out to write a series of essays on economics, or a history of the Stock Exchange. These subjects have been fully dealt with by qualified exponents elsewhere.

The ambition here is far more limited and simplified. It is to offer in clear, and non-technical terms a few common-sense hints to the investor and speculator in stocks and shares. In effect, it is a book on the difficulties of clients, WRITTEN BY A CLIENT FOR CLIENTS.

I wish to thank E. L., H. L., W. E. M., E. A. B., F. C., H. S., A. T. B., W. H., G. R. V., F. B., and other equally popular and efficient brokers and jobbers who encouraged me to write this little work, and for their kindness in glancing through the proofs.

They were, you may be sure, full of wise suggestions, but lead me to hope that, on the whole, the book may serve the purpose for which it is intended. I devoutly hope so.

SYDNEY A. MOSELEY.

Press Club,
St. Bride's House,
London, E.C.4.
1927

MONEY-MAKING IN STOCKS AND SHARES

CHAPTER I

HOW TO START: BANKER OR BROKER

In order to carry out my purpose of making this book as easy as possible for the uninitiated to understand, I propose to take the case of an investor who has never dealt before in his life in any stocks or shares, and therefore knows nothing about the business. I propose to begin at the beginning, and as I go along I hope that some of the hints I am able to give may be of interest, if not of actual service, to a good many other investors of the intermediate class.

Official Stockbrokers Never Advertise.

The man or woman with a little money is often at a loss to know how to employ it. Even if he or she decide to invest it in "something in stocks and shares," it becomes a problem how to go about it. It is, indeed, surprising the lack of knowledge displayed by the general public as to the manner and means of dealing in public securities. The Stock Exchange boasts of being the most exclusive institution in the country. It is. Its members are not allowed to advertise, and the general public is rigorously excluded from its doors. Perhaps that is the reason why, the investing public know so little about its methods and its rules.

I have met men distinguished in other walks of life who hadn't the faintest idea how to buy, where to buy, or what to buy.

"What to buy" I admit, is a difficulty that besets even the experienced; "how to buy," and "where to buy" present the same difficulties to the investor as betting on horses would do to the punter who had the good fortune never to meet a bookmaker in his life. He doesn't know how to make contact—or where.

"I fancy a good horse to-day—do you know a good bookmaker?" is a question I have often been asked.

"I want to invest £1,000; do you know a good broker?" is another question often asked me.

Introduction to Broker Necessary.

Such a person with money to spend, speculate, invest, or gamble, has a choice of dealing (*a*) through an accredited banker, (*b*) through an accredited broker, (*c*) through an outside or "unauthorized" broker.

In each case there are preliminary difficulties to overcome. No bookmaker, and certainly no broker, is going to deal with a client about whom he knows nothing. The ambitious horse backer or punter will have to forgo the thrill of waiting to see if it has "come off" unless he has previously made some arrangements with a "bookie," while the man with a £1,000 will have to let his money burn a hole in his pocket unless he has been introduced to a broker.

Or he may ultimately have recourse to his banker.

Banker or Broker—Which?

Now arises an important question: Should a man deal in stocks and shares through his banker? He may have business of another nature with him; does that justify his putting his Stock Exchange business through him? Or should he take steps to become associated with a stockbroker *with whom he may have direct personal dealings in regard to his investments and speculations?* That is the first point, and it behoves every reader to examine it thoroughly.

It is a curious fact that there are some elderly people who still regard the status of a bank manager with more veneration than that of a stockbroker. Alas, despite his admittedly respectable professional status, the stockbroker is still looked upon by many with suspicion and mistrust. This is no new phase. In a book lent me by a leading light of the House I read that "stockbrokers are rogues and rascals." The book is dated 1746!

And there are members of the Stock Exchange to-day ("House" is the colloquial term) who aver that they were a far better lot in the old days!

Speculation Popular Nowadays.

Among those who are inclined to echo the view of the unknown author of a hundred years back is our friend the banker, who says, "stockbrokers let you in for a lot of rubbish, and they are always looking after their own interests first and their clients' next." That, of course, is a libel. While it is true that there is a greater tendency among clients and stockbrokers to speculate than there was in the days when Consols

formed the bulk of Stock Exchange transactions, it is not true to infer that wild speculation has become the order of the day. True, activity has become somewhat restricted in the more solid stocks and shares since the war, and there has been more business in the speculative and semi-speculative stocks, but that is a psychological change that has become universal.

Banks Discourage Speculation.

"My view is," the head of a big firm of brokers said to me, "that the post-war investor is inclined to take more risk with his money." And he is right. Whether it is the correct policy or not is discussed later on. But at any rate it is against this speculative class of business that the big banks have set their hands. They discourage their clients to deal in any but gilt-edged securities or sound industrials, by refusing to advance money on other classes of securities, and when they do, they periodically call on their clients to make good such overdrafts, so that in the last few years periods of dangerous bouts of selling have resulted. Banks, however, are more anxious than ever to execute investment orders on behalf of their clients.

"Let us deal for you," they say, "and your money will be safe."

"Deal through us," they emphasize, "and you will not lose your money."

"*And not make any either!*" is the retort of the broker, who adds that, after all, it is the client's own affair if he chooses to take a little risk in his profit-hunting.

Is Safety First the Best Motto ?

On the other hand, it is as much the broker's business as it is the banker's to guide clients from the path of impetuosity. Remember, too, that the motive of the bank is purely one of self-interest. Besides, drawing half the broker's commission for every transaction done through the bank, the bank maintains a sort of guardianship or control of the client's money. Naturally too, bankers feel far safer with their client's money invested in sound securities.

Finally, they play for safety in this respect. A client is never lost for having put him into gilt-edged stocks and shares.

Though he may do it with the best intentions, and as a result of the best "information," a broker always runs the possible risk that if the deal does not turn out all right he will have to answer to a disgruntled client. There are very few good losers in the world.

Profits or—Risks !

Now for two other reasons why the interests of the banker and that of the broker conflict. Since the broker is obviously desirous of making money for his client, he is not too eager to put him in gilt-edged securities for the simple reason that such stock do not offer much chances of appreciation. *He knows that once he locks up his client's money in this way he may as well write "finis" so far as the use of that money is concerned.* The client will probably sleep safely and forget about it for a time. Since there are no spectacular moves, no profits to snatch, no losses to cut, no opportunities to re-invest in other directions, and so

give more work and more commission to the broker, he experiences none of the qualms, the excitement, the jubilation—and the dismay of the speculator.

Where the Broker Scores.

It is perfectly understandable, this reluctance of certain brokers to advise their clients to buy gilt-edged securities. For the majority of clients after sleeping securely may wake up and ask when the profits are coming! The gilt-edged game is much too slow for them. Therefore, the average client concurs with his broker in finding some sound stock that offers not only regular dividends, but a chance of capital appreciation.

On the other hand, whereas a broker actually works—and often works hard—on his client's behalf, the buying and selling by banks is of a very perfunctory nature. Not being on the spot, and having, in most cases, a purely formal and impersonal association with the broker who deals for them, the prices they obtain are rarely the best obtainable. The art of *dealing well* is a specialized one; no bank has time to "bargain" on behalf of its clients, whereas the broker worth his salt will see more than one jobber (and then finesse for position) before he actually deals.

What I Told My Banker.

The banker's point of view is, however, worth further consideration. I have often discussed the point with managers.

"Why should I let you deal for me?" I asked one—a friend of mine. "All you do," I said, "is to ring up a firm of brokers and get them to do what I can do

very well directly. If you deal for me, the transaction so far as the brokers and myself are concerned is a purely impersonal one. They don't know me. They know you are dealing for somebody else. What do they care? They don't go from jobber to jobber to get a close price. They probably send in their authorized clerks to deal. In any case, they execute the transaction with as little delay—and trouble—as possible . . . . Whereas I am in a position to deal direct with brokers who will bargain for me until I am prepared to deal."

One of the surest and sanest men in the banking world I have met, was a manager of the Westminster Bank. In our discussion on international questions he showed a remarkable grasp of affairs. But I used rarely to let him deal for me because, as I told him, I knew a broker—alas, I can't name him in print because of Stock Exchange rules—who could rush in, buy, and then sell at a profit, *before any bank had even obtained the ruling price!*

The Banker's Point of View.

Another banker used to cavil at what he sneeringly called the professional broker who deals for himself.

"What chances have you," he declared to me, "when you are up against, not only groups of speculators 'in the know,' but you have to contend with rivalry of a certain class of stockbrokers themselves? *They buy for themselves first, and then put you in.* As soon as they see a penny-farthing profit they sell, and leave you in. *You* can't afford to sell at that narrow

margin because you have to pay a commission. *But they can.*"

There is room for discussion on this view. It is a fact that brokers are permitted by the rules of the Stock Exchange to deal for themselves. This is perfectly legitimate and, indeed, in a measure, is an encouragement to some clients who like to know that their brokers feel sufficiently confident in the security they recommend, to "get in" themselves. I have often told my broker when he has said, "I've bought some for myself," to go in and buy for me, *and sell at the same time as he sells for himself.*

Clients' Interests First.

Certain houses go for certain lines of stocks and shares. They buy largely, and then circularize their clients and put them in. But no authorized broker doing business in this fashion is permitted to make a profit in selling to a client other than the usual commission.

There are, I know, many orthodox firms of brokers who have a fixed rule against personal speculations. One of the firms with whom I deal on no account ever indulges in transactions on their own account. You may think they are wise, for in this manner they are able to take an unbiased view of the stocks and shares in which their clients may be interested. They are enabled to concentrate exclusively on their clients' interests, and not like some brokers, spend harassed lives looking after their own interests first, and that of their clients as a sideline.

The majority of brokers attached to the Stock

Exchange, however, have their clients' interests at heart first and foremost, and no broker likes to see a client lose money, since a satisfied client is a profitable client!

Busy Banks.

In any case, a similar argument might apply to banks who deal largely in the same stocks which they recommend to their clients.

The main consideration, therefore, for the investor who wishes to take a personal interest in his dealings, is just one of convenience.

Let me give the reader, who is still unconvinced as to his best medium in dealing in stocks and shares, some idea of what actually does happen on occasions to orders given to bankers, particularly during busy times.

Take it you have sent an order to your banker to deal for you. Now *your* instructions are not the only ones received by the banker. He has lots of small orders from various clients—orders to buy and orders to sell securities of different kinds, and in different amounts. The banker has other business to look after, and so he formally hands on all these orders to his brokers.

These orders—definite buying or selling orders—are written on slips of paper, and these have to my knowledge been packed together and handed by a busy broker to an equally busy jobber with the words—"Here are some orders. I'll call back later, and let me know what you have done with them!" Which simply means that there is no bargaining

whatever between the bank (representing their clients) and the jobber (representing himself !). He simply charges a price which suits him best. He naturally is going to make the best possible profit, and may even charge the highest marking of the day.

Personal Element Vital.

Such a thing could not happen if there were direct personal contact between client and broker.

The *personal element* in dealing in stocks and shares is as vital as it is in any other business. The more mediums you employ to do your business the less attention is it likely to receive.

I have given the banker's point of view. Now let me give, in his words, the views of a leading broker.

"As far as the public buying or selling stocks and shares through a bank is concerned, I frankly think there are several reasons, from the client's point of view, why they should not do so. Firstly, on the matter of advice. A bank manager may, or should, know his own job, but he cannot be expected to know nor does he know anything about the merits of stocks and shares. In point of fact I know concrete cases of head offices of banks who have telephoned to their brokers and asked them to go round there, and actually give advice in front of the Securities Department official to their client who is there in person !

"Secondly, as regards actual dealing. Clients dealing through banks unquestionably do not receive the individual attention which they invariably receive when they deal direct through their broker, to whom they are personally known. Here, again, I know of a number

of brokers who regularly receive every morning a half dozen or more orders from their bank. They have not the *time* to test the market, and deal at the best prices when executing these strings of orders; this I consider of paramount importance to clients in these days of high Government charges and commissions which they have to pay."

Finally, the banker does not keep his clients advised of movements in his investments as does the broker.

On the other hand, I know of a bank that credited a client with the proceeds of a sale of securities *on the day the order was executed*, whereas in the case of a broker you must wait for transfers and other formalities before you receive a cheque. Again, of course, some banks would facilitate the purchase of stocks against a loan if the business is done through them. These points are worth considering in weighing up the pros and cons of the claims of bankers and brokers.

That is the whole case as between banker and broker.

Two Sound Channels of Dealing.

The new investor will see, therefore, that from the very beginning he has difficult decisions to make. If he is out merely to accept a *small fixed and sure interest* on his capital, then he may well leave his banker to buy War Loans or other gilt-edged stock and forget all about it.

If, on the other hand, he is not content with a 4 or 5 per cent interest, and is *prepared to accept the fortunes and misfortunes in an effort to make money*, he should undoubtedly deal direct through an accredited broker.

As for the *outside* broker, or bucket shop, the subject

is of such importance that I am devoting a special chapter to it. I have placed it at the end of the book, so that it should be the main thing you should ponder over when this work is laid aside.

In the meantime let me repeat—There are only two sound channels through which you should deal—*a bank or a member of the Stock Exchange.*

CHAPTER II

WHAT SHALL I BUY?

Let us take it that you have now obtained an introduction to a reliable and painstaking broker, and that you have exchanged references, and are about to begin business. Your intention is to deal wisely, but at the same time to have a flutter now and again. Your decision to deal directly with a broker is made because you agree with me that it is preferable to remain in constant and direct contact instead of using the more formal and indirect method of dealing with a bank.

Buy War Savings.

You have, say, a £1,500 capital—I do hope it is more!—and you ask yourself: "How am I to start the ball rolling?—what am I to instruct my broker?" First of all, I take it you have purchased a maximum number of War Savings Certificates. For these reasons—

1. It is of the very best security.
2. The interest is good—and
3. You have no bother about income-tax.

The maximum amount you can purchase is a £500 certificate, for which you now have to pay £400. Above all, it is safe, and the motto "Safety First" could never be better applied than when investing your money. You can then lock the certificates away for ten years or so, and then find you are from 50 or more per cent the richer!

Well, you have £1,100 left with which to play. The

prudent man will buy, say, £250 worth of War Loans, £250 of a sound but higher yielding Industrial, and take a flutter with the remaining £600. What shall he buy ? There are scores of speculative *stocks* with which he may either increase his capital by half or lose the lot ! How easily this may be done is seen in the comparison of some of the better known securities within the last few years.

Remarkable Comparisons.

Mexican Eagles were £15 10s. 0d. in 1918, and fell to 15s. !

Dunlops were £11 5s. 0d. in 1919, and dropped as low as 4s. 9d. !

French 5 per cent Rentes were over 90, and slumped to 6⅝ in 1926.

Armstrong, Whitworth were as high as 50s. 6d., and as low as 5s. 6d. !

Edison Swan Electric as high as 28s. 9d., and as low as 1s. 11d. !

Fodens were 70s., and then 18s.

On the other hand, *Daily Mirror* shares jumped from 57s. 9d. to around £8 !

Dennis Bros. were 18s. 6d. in 1921 and 90s. 7½d. in 1926.

R. & J. Hill were 2s. and then 40s.

John Knight 23s. 1½d. and 71s. 7½d.

London and Thameshaven Oil 25s. and 96s. 3d.

And I could give you a hundred more examples without much research.

I fear that, generally speaking, the last few years have been a somewhat exciting period for the speculator.

Cautious but Lucky.

The man who placed all his available cash in the bank or in gilt-edged stock during that period was indeed wise, and he is now wealthy. He is certainly the envy of the crowd of speculators who bought feverishly in the vain hope that stocks and shares—especially foreign bonds—would go back from rubbish prices to their pre-war level, or at the very least double and treble themselves in value.

The past ten years, however, have been abnormal years, and it does not by any means follow that the next ten years will be as difficult. On the contrary, the signs at the time of writing are distinctly brighter, and one foretells an appreciation in the value of those securities which may be labelled as "sound" to-day.

Therefore, the man with £600 "to play with" stands a fair chance of augmenting that sum if he speculates with discretion.

Would You Speculate?

Are you a speculator?

If the answer to that question is in the affirmative, you should now ask yourself "How much am I prepared to lose?"

I have placed in the forefront of my suggested list of investments for all classes of clients, British Government Securities, not so much for sentimental or patriotic motives, but for purely sound financial reasons. Say what you will, British security is the best in the world, and no investor who wishes to receive a fair income and feel at liberty at the same time to sleep quietly in his bed, could do better than invest the

whole, or the greater part of his capital in War Bonds, Exchequer Bonds, Treasury Bonds, Conversion Loans, or other loans guaranteed by the Government.

Yet all the wise and pious platitudes in the world will not keep a man from speculating if such be his natural propensity.

After all, what is speculation? Is it not the spirit of adventure into the realms of finance, the same impulse which leads explorers, inventors, and all captains of industry to seek possible fame and fortune always at a big degree of risk. Without this element of speculation business would indeed languish.

When you come to think of it, a good many of our daily efforts and achievements are in the nature of speculations, although we give them another name. You buy a house. There is a speculative risk in that. You buy coal against a possibility of shortage. That is a speculation. Indeed, there is this spirit of speculation in every undertaking which has any degree of risk or hazard.

When it is Legitimate.

That is why we insure against most risks.

Yet in itself insurance is a speculation!

Sometimes speculation is perfectly legitimate. Wasn't it Adam Smith who said—"The establishment of any new manufacturer or any new branch of commerce, or of any new practice in agriculture is always a speculation from which the projector promises himself extraordinary profits." *And that was written in* 1776.

Since those quiet days the volume of business of a speculative nature has increased a thousandfold. Especially since the Great War. The spirit of adventure

certainly has been transferred from the fields of Flanders to the fields of Finance.

A broker of thirty years' standing told me the other day that he had never known so many *small* investors who are going in for speculation. Some, alas, have gone, and are yet going beyond the bounds of legitimate speculation, and are enticed by the baits of the bucket shop to risk money they can ill-afford in "specs." which have neither substance nor security.

This, as I shall show, goes beyond the line of speculation into the realms of gambling. These are the people who imagine it is possible to grow rich overnight.

No Royal Road.

Let me tell them that *there is no royal road to money-making on the Stock Exchange.* If there were, brokers, financial journalists, jobbers, and—yes—authors of books on finance would soon retire in affluence. Alas! there is an ever-increasing body of those hard-worked servants of fortune-hunters no better off than the clients whom they desire to help. All we can do, as Dr. Johnson nearly said, is to offer arguments and leave it to the perception of the reader.

The small investor, for instance, imagines that he can risk "a few pounds" now and again on bucket-shop shares without troubling overmuch. He thinks it is impossible for him to lose a good deal of money because he has not got it to lose! This may be sound in logic, but it is certainly weak in mathematics. Let him make a close and careful analysis of such speculations. If they cover any considerable period it will be worth his while to make a detailed record of them

from the time he first began to tempt the Goddess of Fortune. *He will be surprised how losses will accumulate*, and how easy it is to lose a large sum of money over a period of years.

Calculating Losses.

He must not only take into account the expenses of stamps, fees, commission, and option money, but he must also reckon loss of interest, and *the money he would have made if he had bought sound investments instead of speculative stocks.*

This loss in capital appreciation must be calculated, together with the loss of interest—and compound interest at that. Work it out, and the figures will astound you.

Let me say at once that the average authorized broker is usually reluctant to put his client into speculative shares. I have dealt, and still deal, with many brokers, and I am benefiting by the experience gained in a hard school, but I do not remember a single instance where one of them recommended a purely speculative counter.

They may, of course, have fancied and mentioned some particular stock or share *as* a gamble. Then they would put it this way—

"If you *want* a flutter, try so and so. You will probably only throw your money away, but it *might* just come off."

Brokers, knowing my own instinct for a gamble, have occasionally said something of the kind to me, but, in the majority of instances, I threw my money away entirely on my own promptings.

When Virtues are Not!

Fresh experiences, I have said, always attract me, although I must admit that few of them are quite so costly as out and out speculation. Once get the taste of it, and the appetite is difficult to appease. Please remember this—

The virtues that stand one in good stead in other walks of life are of no value on the Stock Exchange.

Persistency, pluck, and patience, invaluable in other walks of life, are often a source of positive danger to oneself in the city.

On the other hand, the cautious man, the man who throws over a stock as soon as he sees that it is not turning out favourably as he supposed it would, *the man who has the gift of being able to cut his losses*, is just the type to do well on the Stock Exchange.

My first investment, made some time in 1908, was a modest thirty pounds, which soon dwindled to fifteen. Had I known then what I know now I should have cleared out of that particular stock and tried something else as soon as I saw the tip hadn't come off. Instead of that I imagined that only the faint-hearted gave up the fight! The result was that I refused to "cut my throat" (as they say in Throgmorton Street), and took just the opposite course. I "averaged up" £800 of stock, and finally I was tempting fate and fortune with five figure margins!

£150,000 Turnover.

When I say those early experiences cost me close on eleven thousand pounds I am really under-estimating. That sum simply represents *net* loss—a loss as complete

as though I had thrown eleven thousand pounds in notes into a furnace.

The mathematical computation of gross loss to which I have already referred would be heart-breaking. I dare say I paid more than twenty thousand pounds (if I include interest and the other items I have mentioned) before sufficiently understanding those intricate factors which move stocks and shares in all directions. Since those early days I have spurted, and I am told that during the depressing days which followed the Armistice I was one of the few active dealers on a large scale among the public. Altogether, I have since dealt in hundreds of different stocks and shares, with a total turnover of over £150,000.

For reasons which I give elsewhere in this book, I have dealt with many brokers. Each has his uses, his idiosyncrasies, his specialized knowledge, and a psychology which needs understanding.

My contract notes—as I am a journalist you will forgive this flight of fancy—would paper a line of houses extending from Throgmorton Street to Wall Street. As for my worthless scrip——!

Buy Sound Stock.

I do not mention these personal matters except as an indication to the reader that my advice is not founded on grandfatherly or moral grounds! I write from the point of view of the ordinary man in the street who takes up the fascinating game of speculation, not as his primary business, but as an absorbing diversion.

The reader will perceive then that I have a penchant for trying to make money quickly. I *have* made money,

but not so quickly as I had hoped, and I may say that to-day the bulk of my profits *is tied up in sound investments.*

Let me emphasize, in a word, my advice to the average investor with little capital. Don't speculate! If you must, guard yourself by setting aside in sound stock at least three-quarters of your money, and forget about it while you are engaged elsewhere in playing the game of speculating.

Buy something absolutely safe—or at least as nearly safe as possible in this uncertain world—and then imagine you have lost the money! Then when the dividends roll in periodically you'll be a happy man. That is my considered advice.

If you reject this advice and *must* speculate, then I hope this little book will save you money. In any case, I have written it inspired by the same philosophy as that hero of Kipling's poem, "The Ladies," and I conclude these remarks on the same note as he concluded the recital of his adventures—

> So be warned by my lot (which I know you will not)
> An' learn about dealing from me.

CHAPTER III

PROS AND CONS OF SPECULATION

I HAVE asked "What is a speculation?" First, let me see what the authorities say.

"Speculation in some form is a necessary incident of productive operation," reported the Hughes' Commission in New York in 1909. "When carried on in connection with either commodities or securities it tends to steady their prices. Where speculation is free, fluctuations in prices otherwise violent and disastrous ordinarily become gradual and comparatively harmless. For the merchant or manufacturer speculations perform a service which has the effect of insurance."

But even this Commission pointed out the danger of speculation by persons not qualified to engage in it.

Mines, Rubber, Oils, Etc.

Speculation however is not the result of the Great War! You can trace it in the Middle Ages, although in these days the yet unborn word "Profiteering" would have better applied. Then they had a short and sharp way of dealing with the "crafty and subtle person who was guilty of selling food at a profit." One young man who was caught trying to bull six pots of Nantes lampreys, which he stored in a fishmonger's cellar, hoping to obtain a better price, was arrested, tried, and punished.

What, then, is a speculative share? Most mining securities come under that heading; rubber, tea,

copper, tin, gold, oil, are all more or less of a speculative or semi-speculative nature.

There is a distinction between such a share and the purely gambling counter, with which I shall deal in due course. In the case of the gambler, he merely makes a throw of the dice, which may bring off a little coup or lose half or more of his stakes.

Beware of High Yields.

The speculative share carries with it a *high yield on the credit side, and uncertainty as to dividend and ultimate capital on the debit side.* For instance, oil wells have been known to strike salt water, as many holders of Mexican Eagles know to their cost.

The list of oil companies which once flourished and have gone under is a formidable one, yet to-day there is no more popular speculative section of the House than the oil market. Mexican Eagles at the time of writing show vague signs of recovery, but a good deal of these movements have been inspired by the lynx-eyed share manipulator, who is always the bugbear of the undiscerning speculator.

Royal Dutch, Shell, Lobitos, Anglo-Persian have been among the popular oil shares which have paid good dividends. Apex Oil is among the few which have doubled and trebled their share value in the last year or two. Others, again, have paid handsome bonuses.

Yet the man or woman who depends on a regular source of income for a livelihood should resist the dazzling temptation that such oil shares offer.

I repeat this advice, and shall do so again.

But it is quite certain that no man with the instinct of a speculator can resist the alluring prospects opened up by the majority of leading oil shares.

Points to Note.

The danger in regard to such shares is not only confined to the possible intrusion of salt water. The production of a well may give out sooner than expected. The quality of the oil may depreciate. Vast sums may be lost in exploring new fields. The total sum lost in such unproductive labour is incalculable. Then, of course, one must give heed to the *world's* total output of oil. This varies from year to year, and from season to season. Sometimes, to suit the purpose of those behind the scenes, production is stimulated or depressed. America plays an important part here. You must ask yourself what is she doing, and what is she likely to do. An increase out of all proportion to the demand obviously plays havoc with share values.

Note, then, the risk that the investor has to take in exchange for his good dividends.

Rubber Boom Lessons.

Copper and rubber shares are highly speculative for the same reasons given—big yields and big risks. One must also bear in mind the constant fluctuations in the price of the commodity. The last rubber boom in which almost everybody took part affords a more striking illustration than any words of mine can give. The price of the commodity was rushed up to close on 5s. a pound, and then dropped to as low as 1s. 5½d. Those safety-first investors who were unable to resist the

alluring prospects of making immediate fortunes, and for the first time sold "stick-in-the-mud" gilt-edged securities for any sort of rubber share, must surely have had considerable time to reflect on the vagaries of fortune-hunting.

Gold-mining shares come under the same category. Most of them yield good percentages, but all of them have a limited duration of life.

So that it is always necessary in estimating your yield in dividends to deduct a certain proportion for amortization or capital depreciation.

Discounting a Mine's Life.

Many mines have a lifelong reputation, but you must never forget that the *older the mine the nearer death's door it reaches.* Consider in your calculation that the time will come when the mine will have given out all its rich resources. There is nothing left but unpayable ore and prospects of a "breaking up" dividend.

For instance, take Knight's (or to give it its full title, the Witswatersrand Gold Mining Co., Ltd.), a one-time popular counter. The company was formed in 1886, and has done exceedingly well. Old-time shareholders have come to regard the mine as eternal, and even as recently as 1919 the shares stood as high as 31s. 3d., and have since paid 5s. and 6s. annual dividend.

When some time ago it became apparent that the remaining years of its life were definitely estimated at about ten years, the price began to sag, and fell from the highest to as low as 10s.

A mine, in such circumstances, endeavours to extend its lease of life by looking around in the hopes of being

able to purchase adjoining property. This was actually done in the case of Knight's, and the news helped to raise the shares from the low price to which they had fallen.

Shares "Looked Good."

By the purchase of a number of claims—some 47, I believe—from Knight's Deep in 1920, and the undermining rights of 61 claims from the Transvaal Chemical Co., it looked for a time as if Knight's Gold would now have a considerable extension of life. The prospects at any rate were far more hopeful and—in a word—the shares "looked a good speculation."

The acquisition actually took place, but it was afterwards found that although the ore was of a good payable value, the profit was not quite as high after paying the heavy costs in mining as some had expected it to be. In a word, Knight's Gold is now a low grade proposition. So that those shrewd speculators who had got in on the prospects of this development were not so well off after all, for the Knight's Gold Share from going ahead again to 21s. 3d. fell gently back until it reached a price around 13s., and stays there at the time of writing (early in 1927).

The fortunes of the company fluctuate, and are likely to go on doing so. In the last ten years the annual dividends have been as low as 5 per cent and as high as 50 per cent.

A New Situation.

There were other similar acquisitions of new claims by old mines round about this time, and I, for one, on

hearing the news that City Deep had bought some good claims, jumped in and speculated for a modest amount !

All these changes are going on, and will continue to go on, so that speculation as to the length of Kaffirs is likely to be particularly rife in the next few years. He who makes the best estimation will make the money ! It is no easy matter. Even the experts differed as to the computation of the New Modder's life, London and Johannesburg holding different views. Thus you perceive what a highly speculative game it is.

Even that wonderful property, Crown Mines, has been out looking for new claims and purchasing a few. Altogether, then, a new and interesting situation has developed in regard to some of the leading South African mines, and the new speculator will, therefore, have to go warily into matters before venturing his money in this direction.

How can one estimate the life of a mine, you may ask. Only mining experts can do that with any degree of certainty, and even they, in spite of the most assiduous care, have been known to err !

For instance, the Village Deep Mine, formed in 1898, with only 117 gold mining claims, by various amalgamations and purchases of property, is still crushing and hauling ore from 6,800 feet below the surface—1 mile, 500 yards deep !

There are others. The famous De Beers mines is an example. Its full name—De Beers Consolidated Mines—was so-called because in 1888 Cecil Rhodes combined the smaller Kimberley and other older mines, *consolidating* them under one gigantic organization.

Actually, as a mine, De Beers has an almost incalculable life. It would be possible to go on digging down into the bowels of the earth and still find diamonds. Yet they are only able to dig down as far as it is *humanly* possible to do so. The deeper you go the greater the problem of ventilation, and the more difficult it is for men to work generally.

When Mines Close Down.

Then, of course, the deeper one goes the higher the costs become.

True, we have now the advantages of electric light and electrically controlled ventilation. But even with these modern inventions it is only possible to work down to a certain depth. The best of mines must, sooner or later, close down. That contingency is a long way off yet in the case of De Beers, but I can imagine the chagrin of the investor of the next generation who is too busy or too careless to look into these matters, when he is suddenly made to realize that although his mine is still chock-full of diamonds, *no human hand, no ingenious modern contrivance, can touch them!*

The only consolation is in the hope that by the time that dramatic moment arrives the ever-conquering scientists will have devised some further means to overcome the apparently impossible.

Wild-Cat Reports.

The inexpert speculator in mining shares must more or less depend upon such particulars of the properties as are available.

Calculations made by experts deserve such consideration as is due to their acknowledged status. But even a specialist is liable to revise his conclusions from time to time. He *may have reason to believe*, but he can never *swear* that conditions in regard to future possibilities will be borne out absolutely as he foretells them. I could give many reasons why, but I have endeavoured in the course of this work to avoid technicalities, in the belief that the majority of my readers would be far better pleased with a plain, straightforward, and unhampered account.

Yet those investors who understand something about mining, and who are able to see through some of the flamboyant, wild-cat reports which are issued by uncertificated mining engineers, will doubtless add to their knowledge of mines by a perusal of the recommendations of the Institute of Mining and Metallurgy on the subject of ore.

And I invite readers in general, who are desirous of finding out something about the directors to whom they are asked to entrust their money, to refer to the *Mining Manual* and *Mining Year Book*, where such particulars are given.

'Ware Mythical Mines.

Yet I do not wish you to imagine that you are going to develop into a mining expert even with a study of such data. In the London Stock Exchange are many expert dealers in mining shares, who have made a study of the vagaries of mines throughout their lives; and even they have been misled on occasions by plausible speculators and unscrupulous promoters of mythical mines.

You will understand more clearly what I mean when you have read the following quotation from the recommendations of the Institute of Mining and Metallurgy to their members—

(1) That members of the Institution should not make use of the term "ore in sight" in their reports without indicating in the most explicit manner the data upon which the estimate is based, and that it is most desirable that should be illustrated by drawings. (2) That as the term "ore in sight" is frequently used to indicate two separate factors in an estimate—namely (*a*) ore blocked out, (that is, ore exposed on at least three sides within reasonable distance of each other), and (*b*) ore which may be reasonably assumed to exist, though not actually "blocked out"—these two factors should in all cases be kept distinct, as (*a*) is governed by fixed rules, whilst (*b*) is dependent upon individual judgment and local experience. (3) That in making use of the term "ore in sight," an engineer should demonstrate that the ore so denominated is capable of being profitably extracted under the working conditions obtaining in the district. (4) That the members of the Institution be urged to protect the best interests of the profession by using their influence in every way possible to prevent and discourage the use of the term "ore in sight" except as defined above; and the council also strongly advise that no ambiguity or mystery in this connection should be tolerated, as they consider that such ambiguity is an indication of dishonesty or incompetence.

More Snags.

You see how charmingly politely the council wishes to infer what I would convey—in keeping with the principle which has guided me throughout this book—in six words—

Beware of tricksters and dud mines.

There are a good many other snags which even the mining engineer himself is unable to anticipate. He may be able to give his directors a fairly sound estimate of the quantity of payable ore, but he is unable to

foretell other chemical conditions which may unexpectedly arise.

Another wonderful mine, which has been producing copper for some three hundred years, and is likely to go on producing for another hundred, is the Rio Tinto. Yet here the unwary speculator may be caught in snags of a different sort. He has now to watch, not so much the mine itself, which can very well look after itself, or even the price of copper, which fluctuates frightfully—but he must keep a constant weather eye open on the *foreign share market.*

Foreign Pointers.

"Tintos," as they are called for short, are a favourite international counter, and the price very often is at the mercy of conditions in France and elsewhere. In other words, the man who must speculate in such securities will have to take an interest in the fate of the French Government, to say nothing of the ever-changing moods of the Paris bourse!

Imagine, then, what acumen and insight into the international political situation have been necessary since the war. With French government after government falling, and with the franc going sky-high one day and down to the depths the next, small wonder that Tintos were as high as 50½ in 1920, and as low as 22¾ in the same year! However, this particular stock is regarded as the rich man's gamble. So there you are.

Other mining shares have been equally at the mercy of the English position since the war.

By the time this book reaches the public one hopes that the French franc will have been stabilized. When

that happy time comes you may look for a more tranquil period in the speculative mining market. Indeed, *without* this bewildering fluctuation in the franc the speculator in mining shares has enough to worry his poor head about !

The Flighty Franc.

Even as I write, another change has occurred in the franc position, which enables me to extend my argument, so that the investor may understand more fully what I mean.

The franc, from producing world-wide apprehension by its rapid fall, and thus upsetting markets generally, has now executed a *volte face*, and has been improving too rapidly ! The result of this has been to frighten out French holders of these international securities, with bewildering results.

Now this is a position which baffles experienced speculators in the market, so that I can well understand the difficulties of the new investor. Let me make it clear.

When the franc had fallen to around 240 the French speculator began to fear that his beloved currency might follow the example of the German mark, and collapse altogether. Therefore, he *hurriedly sold all French stock which had a currency value*, and he *bought* such international securities as leading mines and oils, *which he knew he could realize at any time in sound English currency*, even if the franc went phut !

An Oil Example.

Take Royal Dutch as another example.

A considerable business is done in these bearer oil

shares in Amsterdam, Paris, London, and New York. A Frenchman, say, with a million francs at his disposal, would at once invest this sum in "Dutch," because he knows that even if the franc had fallen to a million to the pound, his Royal Dutch would either procure for him good sound English sterling, good gold florins, or immovable dollars.

What happens now in London, and on the Dutch and New York exchanges is fairly obvious. The rush by Paris speculators to buy *sends up these prices with a bound.*

A Panicky Movement.

Now the speculator in London must make up his mind (in much the same way as the Frenchman himself) as to what is likely to happen to the franc. If instead of going to nothing it reacts favourably, then the Frenchman is going *to reverse the process.* That is what he actually did. When the franc rose from about 240 to 200 the cautious Parisian speculator held his hand, for he felt that this was too good to be true, and that the inevitable reaction would result. But when Monsieur Poincaré was able to show by an amazing steadfastness that he had the financial situation well in hand, and that his intention was not to stabilize the French franc at 175 or even at 150, something approaching a panic began to manifest itself on the Paris bourse. They began to talk about the franc going still higher! Some said it would improve to a 120, and others even to a 100.

The result was that Frenchmen *began to throw into the market all kinds of international securities such* as South African Mines, Shell Oil, Royal Dutch, and even

foreign gilt-edged stock. Paris wanted to get back her currency while the going was good, preferring to sell securities which brought in a greater number of francs than they would if the exchange went on improving.

How London was Affected.

The London Stock Exchange naturally reflected this panicky movement. De Beers from reaching close on 21 fell to $16\frac{1}{4}$,[1] Central Mining from $19\frac{1}{6}$ fell to $15\frac{1}{2}$, Rio Tinto from $45\frac{3}{16}$ to $38\frac{1}{8}$. Several other mining and oil shares were caught in the vortex.

Besides this French selling there were those 'cute British speculators who realized what was happening in France, and didn't wait for the Frenchman to take all their profits!

For the shares that Paris sold she *obtained English sterling, and for each pound sterling she was able to get first* 150 *francs then* 140 *and—the longer she waited less still.*

Notice this point. The longer she waited the fewer francs she would get for her shares. Therefore, Paris dumped all her available shares on the market, getting what prices she could.

Sentiment Plays Havoc.

Now you may well ask why these sudden changes in the fortune of francs should affect the English market in this manner. Actually nothing had occurred to the mines themselves in that period. Their intrinsic value was the same; their prospects of dividends unaltered.

[1] This fall was aided by the discovery of a large field of alluvial diamonds being opened up in the Lichtenberg district of the Transvaal.

Yet before you could say " contango " British investors who had bought these stocks had suffered a loss in share value of some 20 to 30 per cent. Why ? one asks again. The answer to that is that *the price of a share depends on other considerations besides its intrinsic value.* Sentiment sometimes plays more havoc with mining shares than strikes.

Then there is the technical position of the market. The share is not only *worth what it will fetch,* but may move strictly according to the law of supply and demand. A perfectly sound share, for instance, may be banged several shillings or points simply because there is one seller and *no* buyers.

Fortunes Made and Lost.

This, it is true, may only be temporary, but fortunes are made and lost in such moments of crisis. Because France was scared about the instability of the franc she sold mining shares indiscriminately, as we have seen ; and if there is anything like a panic *merit simply counts for nothing.* Everything is simply thrown overboard.

She sold the stocks for what they would fetch, and the British jobber, in self-defence, put the price of all these international stocks lower.

Now the speculative investor who studies the " form" of mines as assiduously as the punter studies the form of horses, will now have to decide whether to jump in or not. It certainly is now or never. Shall the franc steady itself ? And if so, will Paris come in and buy back the shares it has so impetuously flung on an unwilling market ? Or has a panic proper set in, and are

we likely to see the shares slump further? Or, again, is the market going to remain sticky and uncertain for some time to come?

British Government and Roubles.

This is a question the new investor will have to ask himself again and again, if he proposes to deal with discrimination and judgment.

Not only the franc but the German mark and the Russian rouble caused similar crises. How many thousands of British investors were hit by misjudging the fate of the German mark? And I happen to know that quite big financiers in London were caught out through miscalculating the Russian position, for—and I believe this has not been made public before—when the rouble began to fall away,

I understand that at one time the British Government made a big but vain effort to check the tide. On the authority of Whitehall millions of roubles were bought and actually had the effect of checking the exchange in one case *for two days,* and in another for merely a few hours.

It would be interesting to know exactly what sum was spent in this futile endeavour. But the downward volition of the rouble was too great even for the tremendous resources of the British Government. And men who had got to know what the Government were doing and acted on the assumption that the exchange would be stabilized burnt their fingers pretty badly.

This interesting piece of secret history, I may add, comes from a high and creditable source.

When to "Look On."

Again, later on, many financiers took the view of my friend, Mr. I. Ostrer, the foreign exchanges specialist, that a new international currency was inevitable; but the force of circumstances was in this case also too strong, and the currencies played havoc with the schemes of speculators and economists alike.

Let us hope that all our travails in this respect will have ended ere this book reaches your hand. If not, the advice I would give you is the cautious one of "looking on."

"Let us look on," is the favourite attitude of the type of broker who is not prepared to risk advising his clients one way or the other. It is sound advice, yet will the speculator be satisfied with this non-committal "safety first" attitude.

"Why wait till after the price has moved?" he wants to know. "Let us take a view *now*. If things are going to go worse, let us sell. If there is a chance of their improving, let us buy . . . ."

Missing the Market.

I confess a sneaking sympathy with this attitude, and I have often said that if I am asked to wait until *after* a movement has taken place I prefer to do nothing. And I have often acted up to this principle. When I have found that I have "missed the market," and have had to watch shares go up, with the "tip" that they might go better, I have refused to jump in.

"I should have gone in *before* the move. Now I won't!" has often been the probably illogical attitude I have adopted.

How to Make Money.

Let me hasten to add, however, that this advice, to deal *before* the move takes place, is one that is not altogether wise or suitable for the small investor. It is far too risky. Yet if one is out in the pursuit of money-making, what is the use of buying shares *after* everybody else has dealt? The way to make money is obviously to buy shares *after a bout of selling by frightened holders*, or after a piece of bad news, be it a slump in the franc, a strike of white or black labour, or a temporary fire, or flooding in the mines.

Nevertheless, the sane speculative investor will deal only in first-class mines, whose boards of directors are of approved reputation, whose mining experts produce periodically figures which may be relied upon, and whose engineering reports are not embroidered for market purposes. Here again the City soon gets to know the sort of men whom it may trust, and what construction it may place on cables and periodical bulletins.

Points to Remember.

Remember, then, that in buying speculative shares the great thing is to buy shares in *good* companies, because if they should temporarily go lower, at any rate they give good dividends, or, in other words, *pay for their keep.*

Watch the swing of the pendulum.

In other words—

BUY ON A BIG FALL
SELL ON A BIG RISE

Always speculate in shares in which there is a free

market; that is, those securities in which there is continuous and considerable dealings.

Your Safe Margin.

I hope that this explanation has not only been of interest to you, but that it will give you some idea of the calculation you must make before venturing into securities which have an international reputation, and which in consequence depend on political and sentimental considerations.

In the next chapter I propose to take another angle on speculation, but I wish to end here on my keynote of caution—

The wise man will always put a safe margin of his capital in sound stocks, so that he may operate with the rest of his money with a sense of security—a feeling that at the very worst, he may fall back in case of disaster on other less uncertain fields of finance.

No man ever went broke through taking a profit.

The man who expects to buy at the bottom and sell at top is trying to achieve the impossible.

To Sum Up.

Let me repeat in brief the points I have been endeavouring to make.

Unless you wish to speculate don't buy mines.

If you *do* buy, do so at a favourable moment, when there has been a set-back due to purely political influences in France or conditions in the mines which in your judgment are temporary.

Buy only sound and proved mines. There are several.

Yet remember that even these have a limited life, and consequently a sinking fund must be considered in your calculations for the future.

Never risk your money at all in such speculative stock unless there is a yield of at least $12\frac{1}{2}$ per cent.

Don't forget to deduct from such dividends from 10 to 15 per cent on account of amortization (according to the life of the mine), and put it away into sound stock.

Put not your trust in princes or in promoters of new and unproved mines.

CHAPTER IV

THE MAN WITH THE GAMBLING INSTINCT

EACH man has his own favourite method of losing money. Some prefer horse-racing, others cards, a great many gamble in business, and yet look askance at the gambling at Monte Carlo! For myself I very rarely put five shillings on a horse, and I regret these five shillings more than I do a fifty pound loss on the Stock Exchange. Once upon a time I explained this by saying that whereas choosing a winning horse was a mere toss up, you have a run for your money on the Stock Exchange, because here one has to have knowledge and brains to bring off a coup! I know better than that now after many years.

That Blessed Word "Chance."

After a long tussle putting what brains and intelligence I have, utilizing my knowledge of foreign affairs, and making the most of every possible opportunity that came along, I admit now that there is a decided element of chance in Stock Exchange "dealings."

I repeat; *there is no royal road which leads to a fortune.* None, except in the imagination of fatuous optimists or dishonest ramp promoters.

But there are many ways in which the average man can make money, both by means of capital appreciation and, at the same time, by a steadily increasing income from investments and careful speculation.

How to Spend £1,000.

I am aware that this is too slow and too sure to please the inveterate gambler. Life would be the drabber without the type of man who is prepared to take risks. Such a man who is able to spare part of his resources, and is ready to stake it at a hazard, is very often a sportsman.

Yet he is a fool as well as a gambler if he risks more than he can afford in the hope—vain hope—of bringing off the long chance. Give me the man with a £1,000 who is ready to invest £500 in gilt-edged securities, £400 in a sound stock which has a fair chance of appreciation, and I will applaud his desire to throw a hazard with the remaining hundred. There are many such opportunities for gambling on the Stock Exchange which may possibly give one the chance in a thousand to reap a harvest.

But there are so many more which are the veriest rubbish, and which have about as much chance as a pulled horse.

Unfortunately, there are always people ready to buy any rubbish that is held before a dazzled public.

What is a Gamble?

"How can one tell what is a gamble?" the reader may ask. The answer is simple: *By the yield.* If a share stands at a price which gives a 14, 16, 20, or more per cent it is usually an out and out gamble. Indeed, one of the few axioms on the Stock Exchange on which one may rely is *The higher the yield the greater the risk.* A gilt-edge stock or share should yield between 4 and 5 per cent. A sound industrial may yield anything up to 5½ and 6½ per cent. Those which yield more have a bigger element of risk in them. So that whenever

you are offered a "snip" yielding 30 per cent and more, you know at once you are being invited to throw your money away.

There is a class of share, however, which is expected to give a bigger yield because it is in the nature of a semi-speculation.

The Road to Ruin!

It certainly becomes a dangerous thing when *people speculate with money that they do not possess.* That way lies ruin. I refer, of course, to the margin system, which is offered by the unauthorized broker and the bucket shop, and which I propose to deal with more fully elsewhere. By merely paying from 5 to 20 per cent of the total value of the stock purchased by people who have no right to speculate, men and women who are totally uninformed on the subject, purchase securities which give them little or no chance of profit. That is an evil of our present-day system that ought to be checked. For it hits the very people who can least afford to lose their money.

Such small people should remember that even in stocks and shares something is very rarely given away for nothing.

Avoid margins, therefore, as you would the plague. Throw into the waste paper basket any offers of "fortunes" which are yours if you are willing to pay a percentage of the total cost of certain securities.

Raising Loans.

The temptation for people to borrow or raise money in some way or another for such purposes is usually intensified during the Stock Exchange booms. The

last rubber boom, as well as the 1909–1910 boom, and the Kaffir Circus of 1894–95, *made fortunes for people who were already well off* and "in the know," *but it also resulted in the ruin of tens of thousands of small investors.*

These booms are recurrent, and the reader would do well to steel himself against the time when the next shall occur. Even cautious France ran amok in 1894 when the Panama scramble resulted in the ruin of many thousands of usually prudent investors, and as early as 1912 the cautious French investor was led away into speculating money he did not possess in Russian Industrials—a boom that exploded the same year. When I was in Cairo last I was told of the extraordinary scenes that were witnessed in 1905–6, when people rushed to buy Egyptian Land and other local securities. And even in China they go mad sometimes in purchasing stocks and shares out of all their real value. Shades of Confucius! As for the New York booms and the trail of ruin—well, it would require a book all to itself.

Unholy Gambles.

I suppose the biggest unholy speculation in history dates back to 1720, when the South Sea Company collected a new fortune from willing shareholders, who were prepared to make money in the slave trade, and in the way of fishing. The shares stood at 120 in April, 1720, and within three months had reached 1,200. Soon after the bubble burst. We take our misfortunes a bit more passively nowadays, although the bubble which more recently burst in the British Controlled Oilfields gamble caused rather a stir.

In those days people were apparently more excitable and as a result of this an Act was passed "to prevent the infamous practice of stockbroking." It was sponsored by Sir John Bernard, and this is what he says about stock-jobbing—

Whereas great inconveniences have arisen, and do daily arise, by the wicked, pernicious and destructive practice of stock-jobbing, whereby many of His Majesty's good subjects have been and are diverted from pursuing and exercising their lawful trades and vocations to the utter ruin of themselves and their families, to the great discouragement of industry, and to the manifest detriment of trade and commerce.

The Gambler who Must.

Laws of all countries are so framed as to protect friendly finance, but it would be difficult to frame an exact law which would protect the man or woman with the gambling instinct from self-destruction. "Speculation," says Mr. Justice Holmes, of the United States Supreme Court, "is the self adjustment of society to the probable. Its value is well known as a means of avoiding or mitigating catastrophes, equalizing prices, and providing for periods of want. It is true that *the success of the strong induces imitation by the weak*, and that *incompetent persons bring themselves to ruin by undertaking to speculate in their turn.* But legislature and courts generally have recognized that the natural evolutions of a complex society are to be touched only with a very cautious hand, and that such coarse attempts at a remedy for the waste incident to every social function as a simple prohibition and laws to stop its being, are harmful and vain."

In other words, if you *will* try to mimic the big

dealers and lose your money in the process, the fault is your own. The law, with all the good will in the world, cannot protect you.

A Defence of Speculation.

"With these opinions before them," says Mr. Van Antwerp, in *The Stock Exchange from Within*, "so long as the governors of the Stock Exchange continue their policy of a wise and dignified administration in the interest of the public they serve, there is nothing to fear. Corrections, remedies, improvements, and reform will be found to be necessary from time to time—some of them are necessary at this moment, and the governors are hard at work on the task. To accuse them of indifference or neglect of duty is to deny them that form of intelligence which enables a man to protect his property. Their splendid institution has grown to its present importance and power through economic development that could not have been foreseen nor prevented. *Speculation on a large scale has accompanied its growth, and contributed to it; and speculation, as we have seen, is a highly desirable and useful part of all business.* This speculation numbers among its adherents people in all parts of the world who have a perfect right to speculate, and who do vastly more good than harm in their operations." Mr. Antwerp agrees with me, however, that it has also attracted a great many people who have no business to speculate, and who would be prevented from doing so if it were possible. The ignorance and cupidity of these people are so great, and the pitfalls provided them by unscrupulous methods outside the Exchange are so many and

various, that something has to be done to protect them. The Stock Exchange does not encourage them, but it recognizes that they have legal if not moral rights, and it stands ready to help them. It gives to such people the same information that it gives to the richest investor in the land. The securities in which it deals are known to be free from taint ; all forms of crookedness are prohibited ; every transaction within its walls is made openly, as a result of free competitive bidding, and published broadcast to the world. What more, and what less, can be done ? Has there ever been a time in the world's history when property and trade were so secure, when speculation, which makes property and trade, was so jealously safeguarded ?

False "Inside" Information.

Let me especially warn the small outside investor against the professional cliques of speculators who work their nefarious purposes from behind the scenes. This body of men may decide to work the market in either direction. They may bang it or butter it !

Having set the trap, by means of skilful propaganda, either through the written word or by handing on "inside information" from ear to ear, they may soon enmesh the unwary outsider who knows nothing about this dark side of modern finance. I shall show in the chapter on bucket shops how it is possible to "work" a price up and down to suit the immediate purpose of the wire-pullers. At a given moment they will begin to buy, at the same time spreading all sorts of reasons for their bullishness.

It is a curious thing that only after a share has

continued to rise for some days that the cautious investor takes a hand, and he is generally left with shares which he has bought at the very top !

Ask Your Broker !

A wary broker, who is a member of the Stock Exchange, should be able to protect his client against such organized movements, but if speculator or gambler likes to deal with any Tom, Dick, or Harry who circulates them that is their look out.

Don't speculate !

If you must, see you have a reasonable run for your money.

Don't *gamble* !

If you must, do all the risky business with an authorized member of the Stock Exchange.

CHAPTER V

YOUR FIRST TRANSACTION

TAKE it, now that you have made your first transaction, through your broker on the Stock Exchange. You have become one of the millions of British investors who seek to make a regular income or a sudden fortune from stocks and shares. Your first purchase, which has duly been reported to you over the telephone or by wire, is, let us say, 500 Winners at 25s.

The Contract Note.

In due course, generally the very next morning, you will receive a contract note from the firm represented by your broker.

This note, which is binding on all parties, will contain items more than you imagine. Besides the main item, 500 Winners Mining Corporation, Ltd. (they always give the full official title of the shares), there will also be other items, such as "stamp and fee," and "broker's commission."

These will increase your total indebtedness somewhat, but do not think that the whole of the extras will go into the pocket of the greedy broker. The stamp and fee go to the Government, and I suppose indirectly benefit every one of us. The commission, of course, goes to the broker for the work—hard work very often—which he does not only in dealing for you but in seeing that all the other formalities are complied with.

Broker's Commission.

There is, to be sure, a staff of clerks in the office and authorized clerks in the House itself who attend to these clerical details, but the broker himself always continues to take an interest in his client's account, since any mistakes must recoil on his head.

It is not generally known that brokers are entitled to charge commission at their discretion, which in my view is not a very satisfactory state of affairs. Yet there is a *minimum* scale of commission which every investor should study, and which will be found at the end of this book.

Your contract will read thus—

Messrs. Broker & Co.,

Bought by order of and for account of John Speculator.

16th March, 1927.

	£	*s.*	*d.*
500 Winners Mining Corporation Ltd., at 25s.	625	–	–
Commission at 3d.	6	5	–
Transfer stamp and Registration fee	6	12	6
Contract stamp.		1	0
For 31st March Account	£637	18	6

"Taking Up" Shares.

You perceive two dates on the contract note—one on top is the date on which you dealt, and the other, at the bottom. the date of account day.

You may ignore the first date. The second, however, is of great importance, for you will have to decide three days *before* that date, whether you wish to "take up" the shares or not—that is to say, whether you wish to pay for them—or sell them.

Take it you have purchased the shares in order to keep them for dividends and capital appreciation.

Remember now that you must send a cheque in settlement on account day.

The Transfer Form.

In due course a transfer form will reach you. This is virtually an agreement from the seller to transfer to you the shares you have purchased.

You sign this transfer form, having your signature duly witnessed, and return it at once.

It will now be sent by the brokers to the offices of Winners Gold Mining, Ltd., for registration, and in due course a share certificate for the 500 shares will be sent you.

Don't Be Impatient.

But this process takes time.

Sometimes it takes as long as six months before the actual share certificate reaches a new buyer. The novice in these matters often becomes impatient for delivery of his certificate. If he is dealing with a reputable firm of brokers he need never worry, provided the transfer formalities have been gone through. What should happen in the best regulated offices is that the deed transferring the shares in his favour should reach him within a few days of the settlement. He should sign this at once and return it. Then if he has confidence in his broker, he need not worry for a few months.

Transfer Receipt.

But if he be anxious and uncertain, *he may demand a "transfer receipt" within a few days of returning the*

executed transfer. This receipt is an official acknowledgment by the company that the shares are in the process of being transferred in his favour. In effect the transfer receipt is a sufficient substitute for the actual share certificate.

The novice who sells stocks or shares *should remember to have his certificates or stock ready to hand over to his broker.* He should wait, however, until the transfer has been sent to him for signature ; he can then return both together.

CHAPTER VI

HOW TO DEAL: AT BEST OR LIMITS

It is important for every one to know not only what to buy or sell, but *how* to buy or sell.

When you instruct your broker to deal for you you will have to say whether you wish him to operate—

(*a*) At a limit.

(*b*) At best.

(*c*) At his discretion.

Let me explain as simply as I can what these terms mean. Supposing you wish to deal in a share called Winners, and you have a clear idea in your own mind as to the price they should fetch. You may instruct him in this wise: "Buy (or sell) 200 Winners at 25s."

This means that you limit him to deal at *not higher* than 25s. if you wish to buy, or *not less* than 25s. if you wish to sell."

Your mentioning a figure at which you are prepared to deal does not mean that your broker will mechanically operate at that figure. He will (or should) always try to improve on the price.

"Limiting" Your Broker.

On the other hand, he will not go beyond the figure. He will not buy at 25s. 3d. or sell at 24s. 9d. *You have* limited him to 25s. That is what the broker means when he asks—"Do you limit me?"

If, however, you are *anxious* to deal, and are prepared to do so at the best possible price, then your

instructions should be—"Buy (or sell) 200 Winners *at best.*" That is to say, at the best terms obtainable. The result may be different from what you expected, but the broker has dealt "at best."

The Third Way.

A third way to deal would be to give the broker full discretion. You yourself may not have time to watch the fluctuations in the market. You haven't time to study the technical position, and so on. *If you have full confidence in your broker* you may perhaps instruct him in this vague manner—"When the market looks ripe buy (or sell) 200 Winners." Needless to add, this can be done to the satisfaction of both client and broker only when there is a complete understanding between them. Actually, however, brokers abominate such an instruction which places the onus on them. Your order should be more definite.

A Slack Method.

Now the question is, which method is to be preferred. The answer is: It depends on the kind of broker you have or whether you are in close touch with him.

An investor content to take a certain margin of profit or to bear a certain degree of loss, is justified in asking his broker to deal at a stated limit. He leaves the order with him. It may be miles away from the price at the time, but you save yourself a good deal of worry and vigilance. So your instructions are: "Sell 200 Winners at 28s. The limit remains good till cancelled," or good for to-day, a week, or an account. It is a slack way, however, of dealing. Also it encourages

slackness in brokers. While a broker may experience a sincere feeling of satisfaction in being able to 'phone his clients and say: "You gave me a limit to sell at 28s.; well, I have sold at 28s. 10½d."—it is odds in favour of his selling *as soon as your limit is reached.* He is bound to do this, as he dare not risk missing the opportunity or "market" as they say.

The broker too often, in his turn, passes on the limit to a jobber, which is a perfectly legitimate, if slack way of dealing. The jobbers get to know what "limits" are about, and can set their plans accordingly.

Losing a Profit.

When Levers 20 per cent, for example, were quoted 10s. 9d. to 11s. 3d., it was known in the market that there were a number of sellers about at 11s. Consequently dealers would not bid 11s. price, and "knowing" men sold at 10s. 10½d. Therefore, these clients who left limits at 11s. were left in the cold.

You see, then, that there are certain disadvantages in leaving a definite limit. Many a good profit has been lost because of a broker having to wait for another penny ha'penny margin.

Therefore, should your broker inform you that there are large selling orders in the market at the price you want, but that he can get 1½d. less—snap it!

He Must Act.

That is one side of the story. There is the reverse side, and here again clients must exercise discretion and judgment before making up their minds. Instances which I recall in my own dealings show how

well-nigh impossible it is to lay down a hard and fast rule, and that while there are some cases where it pays there are others which do not.

For, remember, conditions in the market are liable to change at a minute's notice, and if you leave a limit, and take no further interest in the matter, it is just possible that *you may be selling at the beginning of a big rise,* a movement which may be obvious to your broker and everybody else in the House. Yet here are your definite instructions. What is the broker to do if he is unable to get into touch with you ? or if he feels he must act promptly. The " safety first " broker is going to take no risk. He will *sell as soon as your limit is reached,* whatever big movement may be on foot, and you may have the chagrin of seeing the stock jump much higher on news of a favourable nature at the very moment when your contract showing that your order has been executed, reaches you.

Keep in Touch.

An investor, therefore, should in all circumstances *keep in constant touch with his broker.* It is far more satisfactory both to him and to you Thus you will not only be able to be kept *au courant* with current prices, but he will be able to inform you as to the tendency of markets so that you will be able to decide whether the limit you have given him should be kept on, revised, or cancelled.

Buying "At Best."

Often a broker instructed to execute an order " at best " has to deal against his better judgment. The

market may be up against him, and he may resent the wide prices made by jobbers, who quickly seize every available technical opportunity of scalping weak or eager clients. Take the last rubber boom as a case in point. It was obvious to everybody that a big bull drive was taking place. Everybody wanted to get into rubber shares anyhow, and almost at any price. Brokers were inundated with orders from excited clients—orders which were almost without exception to buy. They poured in by 'phone, by letter, by wire, and clients even came from long distances in person to make certain of being in the swim. Brokers were never more harassed and more at bay. Their instructions to buy at best were as good as saying—buy at any price asked by the knowing jobbers. Other markets in the House were abandoned by jobbers, who all invaded the rubber market with the intention of seizing some of the very evident profits that were being simply flung at them.

Jobbers made what prices they liked. They quoted absurdly wide prices.

Grotesque Official Markings.

"It's a shame," brokers would say to me after they had literally fought their way through masses of struggling humanity in the rubber market. "Of course they're having a fine old time. They had the cheek to make me a shilling price! (meaning a wide difference between the buying and selling price) and I had to deal. My instructions were to buy at best."

The consequence was that official markings (which recorded the dark transactions) were grotesque in

contrast. A 2s. share would be marked as high as 8s. 6d., and as low as 5s. 6d. *But brokers were simply powerless against the mad scramble of ill-advised clients.* Some brokers actually revolted.

"I simply refused to deal"—more than one said to me—"and I have written my clients accordingly."

Jobbers Who Made Fortunes.

They took a risk in doing this, but in the exceptional circumstances such a discretion was justified. But jobbers didn't mind. There were hundreds of others who dealt instead! No wonder they made fortunes in the course of a few weeks. I hope they are spending the fruits of their anxious labour more discreetly than one young jobber I know who romped home with a big fortune made in the boom and "blew it all in" at Monte Carlo.

Another jobber made such a colossal fortune that it mentally unbalanced him temporarily.

Some of the fortunes that were made would stagger many of these investors who rushed in to buy the shares, and it is interesting to know that *so acutely sensitive were some jobbers to the change of fortune in the rubber market*, that they migrated back to their old haunts in mining and oil markets long before it became evident to the outsider that the rubber boom was over!

It is only fair to add, however, that many jobbers had to nurse unsaleable shares for years, and some actually lived on bank overdrafts! These were the days when fortunes in rubber were scarcely dreamt about, and the lucky ones were those who dabbled in gilt-edged stocks.

A Chance in a Lifetime.

Such chances in the gilt-edged markets come once in a lifetime, and those who saw the opportunity when it came reaped a harvest.

What, then, is the best plan to adopt ? Unless you are not satisfied to (*a*) leave it to your broker's discretion to deal at best, or (*b*) at a price fixed beforehand, your best course is to (*c*) *ask your broker for a dealing price.* If his quotation is satisfactory then *deal at once.* Five minutes' delay, or even less, may alter the price altogether.

I was recently at my stockbrokers when I heard him telephoning a client who had gone home from his office feeling unwell, and was resting in his room, having left orders not to be disturbed. "Well, if you won't wake him," he said, "please tell him immediately he wakes that I am able to get 36s. 3d. for his 5,000 shares . . . . This is urgent." My friend and broker was anxious, for he thought he ought to sell at the price. His client's instructions, however, had been—"Sell 36s. 6d., but if you only get 36s. 3d. *let me know first.*"

The jobber who had made the price didn't wait for the client to wake up.

"I am glad you couldn't get your client," he said to the broker, "for I got the shares at 36s."

By the time the client woke up and gave permission for the shares to be sold at 36s. 3d. they had fallen to 34s. 6d. !

The Spirit and Letter.

Now the reader will say here—"Surely the broker should have exercised discretion ? "

That is all very well. But supposing the shares had jumped to 37s.?

"My instructions were for you to sell at 36s. 6d. *not* 36s. 3d. without first referring to me," would have been the rightful complaint of the client. It depends as I say, on the relationship existing between broker and client. Few brokers who have dealt for me have ever troubled to deal according to the *letter* of my instructions. They rather interpret the spirit. For instance, on the day I am writing this, my broker has bought me 2,000 Odhams Ordinary Shares at 5s. 1d. The price quoted me was 4s. 9d. to 5s., quite a fair close price. When he reported he said—

"I had to pay 5s. 1d." Now this was a penny more than the actual quotation. What had happened was when he went back to deal the price had moved to 4s. $10\frac{1}{2}$d. to 5s. 1d. Strictly speaking, and as a matter of principle, he should have telephoned me and reported the new price; but I knew my broker well enough to know he had done his best in the circumstances, and although, as I say, it is the principle with which one is concerned, I did not bother to go into the matter with him.

All Sorts of Brokers.

In a big and varied community of stock jobbers there are all sorts of characters; sportsmen, who will help a broker whose client is making difficulties, strict business men who won't! smart fellows who are ready to take every technical advantage. The latter, for the good of the Stock Exchange, ought to be rounded up and sent home to their mothers! Such men do not

deal on the only fair economic law of supply and demand. They prefer to try and read the broker's intentions, which may be legitimate enough. Often they are smart enough to get a broker to betray his intentions. When they err, as they do sometimes, and are caught, they try to back out. Most jobbers and all brokers will agree with me that this sort of thing is sometimes done, and that they are powerless against it, for brokers are chary of reporting fellow members to the Stock Exchange Committee. They would rather endure the kicks of an irate client.

Jobbers Obliged to Deal.

I have had such an occasional unhappy experience in this connection. When the Labour Government came into being in South Africa, I decided to sell some of my mining shares. Others took advantage of the lower prices and bought. My broker, on my instructions, obtained as I thought a dealing price in 500 South African mining shares. When he reported to me I told him to deal. He therefore returned to the jobber and said—

"I sell you 500——"

"Oh, no, you don't!" said the jobber. "You didn't ask for a dealing price in 500—" or some such excuse. At any rate, as I decided to sell, I had to accept a lower price. Had I chosen, I could have had the matter investigated, and if it could have been proved that a dealing price in 500 had been given, the jobber would have been compelled to deal. On another occasion a jobber "made a price" in Turkish Unified.

"Sell you seven," said my broker, which means, of course, £7,000 nominal.

"Seven!" echoed the jobber. "My price was in two."

Under the rules of the London Stock Exchange a *jobber is obliged to deal* if he makes a dealing price, whether he shall gain or lose by the transaction. Strictly speaking, however, the jobber was within his rights if the amount of stock had not been mentioned. If my broker had asked "for a price in £7,000," and it had been quoted him, here, again, the jobber would have been compelled to deal. If no amount was mentioned—if he merely asked for the price of Turks—he is obliged to deal in £1,000 only.

Maintaining a Free Market.

As I say, however, just as there are all sorts and conditions of business men, so there are different kinds of jobbers and brokers. And clients, too!

The investor, first of all, should make certain that he has chosen the right sort of broker and, if his intention is to deal often he should maintain personal contact with his broker, and it isn't a bad idea *to get some idea with whom your broker is dealing.*

I cannot, in this popular work, go into the more abstruse question of the need for jobbers at all. It does seem a stupid thing that if I have 100 shares to sell at 10s., and you are prepared to buy these 100 shares for 10s., that before completing the transaction we have to pay, besides stamp fees, broker's commission, a sixpence a share to the jobber, whether you buy or sell. Yet without the jobber *it would be difficult to maintain a free market in* all stocks and shares. In by far the majority of stocks he is prepared to make a fair dealing price. Occasionally, when danger looms

ahead, he plays for safety. He may either be out all day to lunch or he may say he is "not a dealer," or he may quote a "nominal price," or make such a *wide* price that you refuse to deal at all. I have often been told—"No stock about" or "Buyers only," or "Sellers only."

Poker Face Needed.

The universal idea that all jobbers remain at their posts ready to deal with all offers of stock is erroneous

Except in the soundest stocks and shares, the investor often runs the risk of finding that the market has run absolutely dry, and that no jobber will deal.

The moral here, that one should deal only in the best stocks, won't appeal to the speculator, who will go on trying to make a pile in any circumstances. A broker who does his duty properly gives not the slightest indication to the jobber, either in tone, terms, or facial expression, whether he is a buyer or a seller. The good broker should have a poker face and a poker temperament.

Thus, supposing you wish to sell 5,000 Perak Rubber shares. You will get your brokers "to get a price in 5,000 Peraks." And here one should note a distinction between "a price" and "a *dealing* price." A jobber not asked to quote a dealing price in Peraks is safe enough to give a general indication; it is a different matter if he is asked to *make a price* in 5,000.

The prospect of a deal puts him on the *qui vive*. If he can "read" the broker's intention—and this isn't quite so impossible as some jobbers assert—he will

quote a price accordingly. *Choose a placid, world-wise broker.*

Points Worth Noting.

To emphasize the points I have raised—

" Limit " your broker if you have made up your mind what price you wish to deal at.

" Deal at best " if you wish to act promptly.

Give your broker full discretion only if you understand him and his methods thoroughly.

Yet remember—

The best way to deal is to get in touch with your brokers when you wish to buy or sell, get him to test the market, gauge the tendency and *ask for a close price.* THEN DEAL.

CHAPTER VII

HOW TO DEAL: CARRYING OVER

WHEN you have reached the carrying over stage you may regard yourself as having arrived!

I haven't said where, however. It depends now on how far you are able to control your speculative impulses, and whether your financial position is strong enough for you to accept certain risks.

A Simple Illustration.

"Carrying over" means "continuing the transaction," and may be best explained by a simple illustration. You hear a tip from the horse's mouth (it is usually a hoarse throat) to buy Esperanto Deep.

Now these Esperantos may be subtle as well as deep. Their so-called golden opportunities may be plain enough to the man who for some reason prompts you to buy, but somewhat perplexing to everybody else. In which case, or in nine such cases out of ten, they are best left alone. You needn't bother about whether you can carry over such chances or not. Indeed, you most probably couldn't, for no decent jobber would deal in the shares, and no decent broker would try.

If You Bite.

Yet, supposing you were foolish enough to bite. Supposing the tense manner in which the tip is given leads you to endow the tipster with angelic virtues. You rush in at once and without bothering about the

ignorant broker you instruct him to buy 500 Esperanto Deep. He may look askance, but you brush him aside. *You* know. He doesn't!

Having bought them "for a quick profit," you now condescend to hint to your broker the reason for your excitement, and to possess yourself in patience, waiting for the ship to come home. It already *has*, in your imagination, but actually it is receding farther away than ever from port. What does suddenly loom up instead in front of you is Settling Day! And preceding this is Contango Day.

Settle Up—or Sell!

Now you realize two things. First, that Settling Days simply fly round when you are dealing on the Stock Exchange, and that you have either to settle up or sell the shares.

"Oh!" you exclaim, "this is a pretty sad business. I haven't the money to take up and pay for the shares, and I simply loathe to throw them away, because I feel certain that in a day or two—surely not more than a week or two—they will go much better." What a shame! And you feel thoroughly sorry for yourself.

This is where your broker comes in.

"I'll see if I can carry them over for you," he says. A gleam of light! He means he will go to the jobber from whom he has bought the shares—or, failing him, another jobber dealing in the same sort of share—and ask him if he will "carry over" the transaction from this account to the next, so that in effect the fortnight's grace is extended to a further fortnight. He is able

to do this by borrowing the shares or by some other book manipulation which need not concern you. All that should interest you is that you have another lease of life without having to sell the shares and buy them back again with all the expense it involves. Simple enough you say. So simple that you wonder why everybody else doesn't do it, for you could keep on holding the shares in this manner until they actually did rise. *Obviously, however, there is a debit side to the transaction.*

What it Costs.

1. The jobber charges a rate of interest—sometimes a pretty stiff rate, particularly if he is not anxious to carry over the shares.
2. You have to pay your brokers the difference between the price at which you bought the shares, and the price at which they stand at the end of the account, or "making-up day," as it is called.

Thus, once more to come down to the plain, simple course of illustrating my point :

You have bought 500 Esperanto Deep at £1 each. Your contract reads—

Bought by order of and for account of John Speculator, Esq.	£	*s.*	*d*
500 Esperanto Deep Co., Ltd., shares at £1	500	–	–
Transfer Stamp and Registration Fee	5	2	6
Commission 3d. per share, Stamp 1s.	6	6	–
	£511	8	6

For 11th March, 1927.

Signed, Broker & Co.,
Members of Stock Exchange.

Note. If you are dealing in certain South African shares the registration fee is 2s. 6d. per deed of 100

shares. There is also a Cape Duty of 1s. on every £100 or part thereof of the consideration money. In the above case, therefore, if these were South Africans your expenses would be increased to £5 17s. 6d.—an increase of 15s.

The Making-Up Price.

At the end of the account each share is given by the Committee of the Stock Exchange an official "making up" price. (An abbreviated list, by the way, is published in the financial Press for general guidance.)

Although your shares may not actually have dropped, the "middle price"—that is, the medium between the buying and selling price—is probably 19s. 6d.

Your account will now read—

C/o 11th March, 1927.
John Speculator, Esq., in account with Messrs. Broker & Co.

	£	*s.*	*d.*		£	*s.*	*d*
Mar. 4. To 500 Esperanto Deep .	511	8	6	Mar. 11. By 500 Es. Deep at 19/6 .	487	10	–
				,, Stamp & Fee (recredited)	5	2	6
				,, Balance .	18	16	–
					£511	8	6

Showing a debit balance of £18 16s. 0d., made up by the difference of 6d. per share in the price you paid and the official making-up price, and the amount of commission and contract stamp, on your original contract. The transfer stamp and company registration fee is, of course, recredited you, because you are not actually taking up the shares.

Notice, then, the first expenses incurred in this

carrying over process. And if Esperanto Deep begins to sag—or even if it remains at about the same price, *you will have more debit balances to meet just as long as you continue to carry them over,* and another commission to pay when you sell.

Over-Indulged.

I have gone to this length in explaining the process of carrying over, firstly, because it is much—overmuch—indulged in by small investors, and, secondly, because it is not sufficiently realized how the expenses in this stupid practice mount up.

Few investors bother to reckon up the cost of carrying over third-rate shares, or to work out how far the shares must rise in order to make it profitable. If they did, contango accounts would be fewer.

Wasting your Money.

Now I have given the example of Esperanto Deep because it typifies a certain class of share which is often dealt in by the unwary investor. No reasonable broker will encourage his client to go on wasting his money in this direction, but some brokers find it discreet not to proffer unsolicited advice to "cocksure" clients. What often happens is that the client learns his own lesson. He may grumble, but go on paying the small differences that occur in each account.

Since each fresh account pays no heed to past losses, he may not even notice how much he has actually lost.

The second account of Esperanto Deep will say nothing about the original purchase price of the

shares. That is all wiped out. What will now appear is—

To 25th March, 1927.
John Speculator, Esq., in account with Messrs. Broker & Co.

	£	s.	d.		£	s.	d.
Mar. 11. To 500 Es. Deep at 19/6	487	10	–	Mar. 25. By 500 Es. Deep at 18/- .	450	–	–
,, Interest, 14 days at 8%	1	10	–	,, Balance .	39	1	–
,, Carry over contract stamp		1	–				
	£489	1	–		£489	1	–

Another debit balance of £39 1s. 0d., which he must settle on the nail.

A Mug's Game.

I may mention, in parentheses, that there is a carry over contract, which reads—

"Sold for 11th March account and bought for 25th March account," which is sent you on Contango Day, showing that the contango has been arranged, but this is a formality which need not worry you, since the transaction will duly appear in your account.

What I wish you particularly to note is that the making-up price which is credited in one account becomes the debit item on the new account. Nothing whatever is said about the original amount of £511 8s.6d.

The moral here is that *contangoing or carrying over speculative shares is a mug's game.*

Besides, even if you are prepared to go on paying and hoping for the best, the time may come when you *may be suddenly refused facilities for further carrying*

over ; so that you have now either to take up the shares or sell them under unfavourable conditions.

When it is Advantageous.

Let us now take a step further. My Esperanto Deep example is *illustrated in doleful colours,* with the deliberate intention of discouraging gambling.

Yet the system of carrying over, *normally utilized,* is not only a perfectly proper and legitimate need in Stock Exchange dealings, but it may be used to advantage by the discerning speculator. Indeed, contangos may be said to be the life blood of the speculative system in Stock Exchange dealings. There are certain well-known officially quoted shares, which are often carried over without difficulty. Thus, "Johnnies," "Eagles," "Dutch," "Shells," "Chartered," "Courtaulds," etc.

In such shares as these there is a free market—by which is meant constant and considerable dealings—so that the market, through your broker, are prepared to afford carrying over facilities at a reasonable rate of interest.

News Always Discounted.

But even here you should not embark on such a course unless you have good reason for doing so. For instance, you get to hear that the Royal Dutch Company is shortly to declare an increased dividend. *Before* the news becomes general you buy 50 shares at, say, 31, and are prepared to hold them for two accounts, by which time the dividend will be declared. You are not prepared to pay £1,600 or so for the shares. *Nor*

is it necessary if your intention is merely to run them for the shortly to be declared dividend.

Dutch may appreciate ½ point by the end of the account, and this leaves you on the right side. News of the increased dividend now percolates through the House; the shares respond—*and you sell*, remembering that—

> As the news gets round, it is always discounted in advance by the market, so that when it is officially published only the undiscerning investor will buy, while those who get in at a lower price will sell.

Technical Position Vital.

If all this has been made clear to you, let us take a more advanced point.

Nine investors out of ten leave out of their reckoning the *technical position* of the share they wish to carry over. They never think of ascertaining such an important market factor before dealing.

And yet without such information the speculator must deal blindly; he is, in fact, gambling—and worse: *he does not know what forces are arrayed against him.*

> He may be carrying over and building up hopes on shares in which an already over-weighted bull account exists.

A Case in Point.

Let us immediately come down to brass tacks. You hear, say, from a clerk at the Mexican Eagle offices that while he was sorting out some letters he came across a copy of a cable received from Mexico, stating that three or four gushers have been brought in! He

hands on this information, and extracts the usual vow from you: "Don't tell anybody." Here is a chance to make a fortune. Pending the publication of such favourable news you rush in and buy the shares. Having bought them—although where you are going to find the money Heaven knows!—you go and play golf with a wealthy friend, and at the seventh hole, even if you haven't done it in bogey, you whisper: "Buy Mexican Eagles . . . . *I know something.*" You naturally keep faith with your informant by not mentioning his name, but to withhold all mention of the Great News—*now that you are in*—would be expecting too much from frail human nature. Usually, your vague hint is sufficient to send anybody rushing from the green to the telephone. Of course, you tell your wife. Indeed, she may tell dear Gladys ("Don't say where it comes from . . .") until every one has had the good news and has operated upon it.

Creating a Bull Position.

Now see what happens. Supposing now that the news of the Mexican Eagle's gushers is true—(and news of oil-gushers may often be taken with a pinch of salt, several pinches of salt sometimes)—you and your friends and their friends, without being aware of it, have all helped to build up a bull position. In this wise. You yourself may intend to take up the shares and keep them. *But half or more of the people who have bought the shares have no intention at all to take them up and pay for them.*

They are waiting for a quick rise and a quick profit.

Since, however, shares do not have a habit of moving

immediately, they will probably find the end of the account at hand, with the prospect of selling at a loss. Therefore, when carrying-over day comes *they each of them* go to their brokers with the same instructions: "Carry them over."

This means that a crowd of brokers all try to arrange with the few dealers who sold them the shares a carrying over process.

A Bout of Selling.

The market—that is, the jobbers in this particular share—know at once that a big bull position has been built up. They know that a number of holders are all waiting for the opportunity to unload their shares at a profit. And so they are able to trim their sails (or sales) accordingly!

The wideawake dealer, knowing all this, is not going to buy on top of this artificially created price. He realizes that sooner or later those bulls are going to get tired of carrying-over, and paying interest for the privileges. When they all begin throwing their shares on the market *that will be the moment for him to buy—at the lower levels.*

He knows that since all these speculators are out for a profit, and have no intention of keeping the shares, there is bound to be a bout of selling in much the same way as there was a bout of buying on the specious rumour.

Inquire Again!

You see, then, that just as a rush of speculative sellers or bears discounts bad news (see Chapter XI), so

that when the shock actually does come little enough is felt, so it happens that a rush of speculative buyers or bulls of Mexico Eagles would largely discount the good news when it was published. That is why, gentle and generous readers, things are not always what they seem—to you who have something else to do than keep a constant vigilance on these and a hundred other intricate points.

Ask your broker about the technical position of a stock or share before you deal. If he is wideawake he'll be able to tell you. But he is so very rarely asked!

CHAPTER VIII

HOW TO DEAL: OPTIONS

I HAVE been endeavouring to write this little book in a spirit of sweet reasonableness. Yet I should be lacking both in candour and in duty were I to write a panegyric on the subject of Options.

Shortly after the war, dealings in options were suspended. I wish to goodness they had never been re-introduced!

What is an Option?

"Options" are one of the few Stock Exchange terms which is self-explanatory. If you want an option on a certain thing—whether it is a piece of furniture, a house, or a gold mine—you arrange with the owner to have the first call on the property at or within a given date. In all probability he may be willing to do this for a certain consideration.

In essence then, an option on the stocks or shares is the right to purchase—or sell—a given security at a given date at a given price. A double option, i.e. "the put and call," gives one the right to do either. Comparatively few outside investors do the double option, so I will confine myself to the option pure and simple.

For a small consideration then, one may obtain an option—"Give for the call" is the Stock Exchange term—for one, two, or three months.

Limiting Your Risk.

Supposing, for example, you fancy the chances of Winners. You hear and believe that within about a month or two these shares will have a jump of five or six shillings.

You do not actually wish to *buy* the shares, however, for two reasons. The first is the perfectly sound one that you haven't the necessary money available, and the second is that you realize that however sure you may feel about the rise, the unexpected *may* happen, and the shares, instead of jumping up five or six shillings, may move in the wrong direction.

Therefore, you have no desire to accept the responsibility of purchasing the shares outright or—even if you could—of carrying them over from one account to another. Your whole idea is to *take a chance, but a limited one at that.*

Temptations to Avoid.

If you bought the shares, or even if you carried them over, you would still be liable for the full amount of the fall.

> By doing an option, you limit your liability. Your total loss—if there be a loss at all—cannot exceed the cost of the option itself—that is, the price of a shilling or so per share, plus commission and contract stamp.

See what a temptation it is for the speculator who is of an optimistic temperament.

"Things are going so much better all round," he declares. "I haven't any money to spare, but I can give for the call of two or three lots of shares. I can't

lose much, they are bound to go up *a little,* at any rate, so that the price of the option will at least be covered . . . . Besides, I have three months' grace. Anything may happen by then."

Anything might well happen—far different from that he imagined. Still, three months! You would hardly think that in so sensitive an atmosphere as the Stock Exchange, nothing at all would happen; that with the ups and downs in the financial barometer big differences would not show themselves inside that period.

Steady Tone Preferred.

I paid a good deal of money for the privilege of finding out that *actually things do not happen quite so melodramatically as the film plays portray.* Shares move up a few pence or a few shillings, and then they move down a few pence or a few shillings. And this sort of thing goes on until you find at the end of three months that things are pretty much as they were when you ventured in the option market—and that *you have thrown your money away.*

The Stock Exchange does not welcome violent fluctuations. It rather welcomes a steady tone in preference to a big upward movement one day, and a big downward movement the next. Whatever you may think of the Stock Exchange from the moral point of view, you may find solace in the fact that gambling or speculation pure and simple is not officially encouraged, and, in fact, has few adherents among the members of the House. Good sound stock which maintains its price, and which rises in view of increased dividends is more to the official taste.

Brokers and Clients.

Obviously the broker is a human servant of the public, who does not turn up his eyes at the prospect of possible commissions ; if you will go " in and out " of speculative stock, if you prefer to purchase options, and if your instructions are to sell bears—well, it all means more business for him and, in consequence, more commissions. I have yet to meet the broker, however, who wishes to make money at his client's expense.

True, in such a large body of men you are bound to find black sheep, and the discerning investor will select his broker with the same amount of care as he selects his stocks. The average broker, however, knows that apart from the unfairness of it, money-making out of his client's losses will not pay in the long run, for he will surely lose his client's business altogether. Therefore, safety first is a motto of five brokers out of six, *unless clients will it otherwise.* It requires more than ordinary control to resist the blandishments of a mug.

A Post-War Stimulation.

When options were reintroduced on the Stock Exchange after the war, many brokers were pleased because the element of chance attracted more clients, and stimulated business generally. One of my brokers, a young fellow just returned from the war, grew very enthusiastic about its possibilities, and brought me the first list of option charges which was authoritatively issued since 1914.

It will assist the reader in understanding the subject if he will follow the argument advanced by my broker friend in support of option buying.

"Things are bound to go much better," he said to me. "The war is over and done with. Business is going to settle down to a steady level. Shares are bound to appreciate, and it will pay you to give for the call. I feel absolutely bullish."

"Giving for the Call."

So far so good. For I was bullish too. He proceeded—

"You are fully committed in a good many directions now. Why not 'give for the call' in a few of those stocks in which you do not feel quite so sure? Sell a few which *might* go wrong, take an option on those as well, so that you have still an interest in them—and *you have three months' run without worrying about anything* for, remember, your liability is limited. At any rate, you know where you stand. The options are cheap, too. For instance, 10½d. a share, and you can obtain a three months' option on this, and for 1s. 3d. an option at the same time on that . . . ."

Reader, does it not all sound so simple, safe, and inexpensive? Yet by the time the three months were up and all my calls expired on the same day, I found that I was due to pay over to the firm of which my young optimistic friend is a leading light, a cheque for over £2,780.

All in options!

"Insuring" Your Stock.

A reason of an entirely different kind which was advanced to me by another broker who suggested options is equally of interest.

"It looks as if we are in for a bad time," he said. "Wouldn't it be better to sell your *firm* stock, and take options instead? One is then limiting losses, whereas you might lose half or more of your entire holding." An interesting point.

Furthermore, he estimated if I sold stock it would then be possible to use the money to better advantage. In addition, I would still be keeping in touch with my stock, for in three months' time he could buy it all back. What it amounted to was that I was insuring my stock during a depressing period.

"And surely," was his argument," some of the stock is *bound* to rise sufficiently by that time to give you a profit, and others will have risen at least enough to cover your option money?"

Finally, he repeated the argument of the first broker.

"At the worst you will only be called upon to pay a limited sum, and you have the satisfaction of knowing where you are."

Paying for Experience.

This argument, however, left me cold, for I am somewhat quick at accepting lessons for which I have paid, but a friend of mine was rather impressed, and gave for the call for "a limited sum." At the end of the three months *he paid most of it,* so that he had neither his stock nor his money. When he came to think of it he realized that for money he had spent on the option he could have repurchased a proportion of the stock he had sold and locked it away.

My Coups !

Do not think that I am going to permit my earlier experiences to colour my view on the subject of options generally. I have dealt a great deal since, and, if I may mention it, I am one of the few who brought off a small coup on French bonds when the franc seemed slithering away to nothing. I have also been successful in options on Royal Dutch, Knight's (by correctly anticipating a dividend), and in a few other shares.

But I have saved most money on options since my somewhat expensive first lesson by *buying a few shares every time I felt tempted to give money for the call.*

If the adage " A penny saved is a penny earned " is true, then I have saved a considerable sum in the money I have saved by not dealing in options. Let me, at the risk of repetition, make my meaning clear.

Buy Stock Instead.

To-day I hold stock which I purchased instead of spending, say, a hundred pounds in giving for the call on Mexican Eagles. For that sum I could have had an option on 2,000 shares. Instead, I have preferred to *buy* a hundred shares outright, and lock them away. So that, whatever happens, those shares are mine, and if they do not move in six months, or even a year, they are still mine, and I do not have to pay that sum to the option dealer in exchange for nothing !

By Way of Illustration.

Having got all this off my chest first, I will now proceed to follow the course I have adopted in this

book, by illustrating simply my argument by an actual example.

This is the way options are done. Supposing you fancy Chartered for a rise in a month, six weeks, or two months. You will first ascertain from your broker the ruling price of Chartered.

This is most important, and often overlooked by those who are more concerned with what they have to pay for the option itself than for the price of the share which is added to the option. And you should find out, first of all, what the recent movement in Chartered has been, because if the shares have risen 4s. since you first began to consider its potentialities, then it isn't much use giving for the call now. The shares have already had their rise, and they *would have to go very much better* before you could make a profit. You see why. Not only have you to pay your option money, broker's commission, and the small contango charge, but you have to make a profit beyond all this, so that you have hardly a run for your money.

The Painstaking Broker.

We will assume, however, that when you received a tip to buy Chartered, that they were standing at, say, 28s. 6d. Your broker now informs you that the price is 28s. 6d. to 28s. 9d.—he thinks buyers at 28s. 7½d.—thereby showing you that there has only been a slight move recently—from your point of view a move in the right direction—upwards. You will now ascertain from him what it will cost for a call on, say, 1,000 shares in three months. Your broker, if he be of the conscientious and painstaking variety, will not only

inquire of the option dealers, but he will also inquire of the biggest jobbers in Chartered, so that in the event of your wishing to deal he knows the cheapest market. He informs you that he cannot get in cheaper than at 1s. 3d. at 29s., that is to say 1s. 3d. for the option, *plus* the ruling price of the share, *plus* a few pence for contango.

If you deal, your position now is—

Liability.	£	s.	d.
Given for the call on 1,000 Chartered at 1s 3d. at 29s.	62	10	–
Commission	12	10	–
Contract stamp		1	6
Total	£75	1	6

In other words, if for some unlikely reason the shares drop away, slump to five shillings, all you will have to pay will still be £75 1s. 6d.

On the other hand, they must move up to beyond 30s. 6d. before you are able to make any profit at all. Even if they move to 30s. you still lose, for at this price you would get some £1,500 while the cost was—

	£	s.	d.
1,000 Chartered at 29s.	1,450	–	–
Cost of option at 1s 3d. per share . . .	62	10	–
Broker's commission, 3d per share . . .	12	10	–
Contract stamp . . . . . (say)		1	6
	£1,525	1	6

"Calling" the Shares.

You see, then, why Chartered have to go to 30s. 6d. *at least* before you can see your option money back; any rise beyond that figure, however, is a profit.

As a matter of fact, Chartered have been as low as 11s., and as high as £11. So that for the purpose of illustration we will assume that your information was

someone, the option dealer who takes your money for the call, has to pay for them, and the additional 3d. represents the "contango," or interest, charged for three months. If you work it out, it comes to one halfpenny per fortnight per share, and doesn't sound quite so dreadful !

"Ah !" says the knowing reader—"I understand that this isn't quite so in actual practice, that, in fact, *the option dealer only buys half the stock or half the number of shares against my option* ; therefore, why should I pay 3d. contango on the lot ?"

His Affair.

The answer to this is "that is *his* look out. If he likes to take the risk, let him !" You yourself may come in for a very good profit *at a minimum of risk,* and if you have given for the call of 1,000 shares, that number of shares has to be financed somehow ; *how,* doesn't concern you.

Of course, the *pukka* speculative option dealer is always on the *qui vive,* selling and buying back again *against* his option. If you can spend the time, and the opportunities are there, it is an interesting game, which requires skill and pluck. But it is not a game that the average investor can play—nor do I advise him to play at options at all. *Far better buy a little stock if you feel bullish about it.*

An Option to Sell !

Here I can imagine the interjection of the persistent reader : "Tell us about a Put."

Oh, well. If you *must* know. "Giving for the Put,"

as it is quaintly called, is something in the nature of selling a bear.

Most of us are optimists, however, and are always looking for rises in share values. Therefore, "bears" among the investing public are comparatively few, and just as jobbers are very infrequently asked to give on stocks sold by bears, so option dealers are rarely asked to quote for the "Put."

It is in a way just as well for, as I have shown you, it is a difficult and risky business going on the bear tack, *although, as it happens, since the war the bears have done a deal better than the bulls.*

Let us hope it is soon the turn of the bulls.

The "Put."

Well, you are out to give for the Put!

For the sake of clarity, we will stick to our friend Chartered, and because they are a free market, are dealt in considerably, and can be dealt in at a close price. They have had, too, some wide fluctuations. Now these are, let us say, 34s. 6d., and you hear that instead of going better there is likely to be a slump. So, it being a nasty wet day when you are told this, and feeling the perfect pessimist, you instruct your broker to "give for the put," which he is able to do at the same price of 1s. 3d. for three months.

Your position is now reversed. Your 1s. 3d., instead of giving you the option of *purchasing* the shares at the end of three months, gives you the option *to sell*—in three months' time. Let us say 34s. 3d. is the price at which you have the option to sell. You remember that when you "gave for the call" and Chartered

stood at 28s. 9d., 3d. was added to the price for contangos. This time, now that you are giving for the Put although theoretically you have sold the shares, threepence is not taken off but *added*, because you are, in theory, financing *this* transaction, and will receive the contango or interest. End of option time arrives and Chartered are back to 28s. 6d., so *you instruct your broker to buy* 1,000, which he does at 28s. 6d., and on option declaration day he "puts," or in plain language, sells 1,000 to our friend the option dealer at 34s. 3d., thereby showing you a profit of 4s. 3d. a share.

1,000—1 Against !

You should be able to work out yourself from my explanation on giving for the call how this 4s. 3d. has been arrived at. I told you in the opening page of this chapter that I have not much faith in options, but I have given you two profitable transactions *on paper*, and no doubt you are wondering how the option dealer makes a living. Cease worrying when I tell you that *for every one that turns out successfully thousands do not* !

I will only touch very lightly on Double Options. Taking money for the "Put *and* Call" because it is a pleasure to be indulged in only by the very rich, and preferably by a large holder of stocks or shares.

If, say, you hold 50,000 Chartered (there are nearly 9,000,000 of them), and markets are idle, it would pay to take 2s. 6d. (double option, double price), for if the shares *rise* sharply you would not mind selling a few if they were called, or should they *fall* you wouldn't mind adding to your holding, especially as you receive 2s. 6d. per share for doing so !

Not Worth the Risk.

To recapitulate briefly—

There is a strong temptation to pay for an option. I say to the new investor—and here, again, I speak from first hand knowledge—that with the money spent on options, such as I have described, the temptation is not worth the risk.

It would be far better to buy a few shares and pay for them. You would know then that the shares were yours, whether they rose or fell in three months' time.

Besides, Chartered, or any other stock, except the purely gambling counter, is most unlikely to have such a spectacular rise within the period of a month or two as to give you a good profit on your outlay.

The most you can reasonably expect in the transaction of this kind is to recover part of your option money. Because in order to make a profit, the shares must not only move in the way you expect them to, but they must move high enough during the limited period of your option first to pay your expenses and *then* to give you a profit. Until recently, too, the deal could only be closed at the *end* of the period originally named. Nowadays an option may be closed *at any time during its currency*, providing you have arranged to do this when the transaction was entered upon.

You may take it as a rule which has very few exceptions, that sound securities only occasionally move fast enough, whether up or down, to give the option holder much chance of making a net profit.

Options are favourite baits of the bucket shops. *Verb sap!*

CHAPTER IX

TAKING PROFITS AND CUTTING LOSSES

THERE are some rules in life which sound fatuous and childish when they are given. We listen, smiling benignly, and utterly ignore them.

"Mind how you cross the road, darling!"

"Don't put all your eggs in one basket."

"Put a little away for a rainy day."

"DON'T BE TOO GREEDY!"

They have this misfortune of being too trite to terrify. We cross the road perfectly safely, thank you, and it is more convenient to make one load of eggs. Why think of rain when the sun shines and—greedy! Why, one never wants too much—*only just enough*!

The times I have heard the rules of life applied to dealings on the Stock Exchange!

Too Many Different Securities.

Only one of them is taken! A client sometimes, *if he has any money left* after trying to make a fortune overnight by playing his all on an "absolutely sure thing,' goes to the other extreme, and distributes his money in so many different directions that it becomes quite impossible to need half of them! During my little thrill of being "intelligence" officer to a firm of accredited London brokers, many big business men sent me in their lists of securities to overhaul. Some of them were six octavo pages full, three at least of which were undiluted rubbish. , Names I never heard of—and which nobody will hear of again. They had

just bought the stuff, worried over them awhile, and then instead of outing them while there was something left to save, blithely put them aside and forgot *all about them*, having bought something else of immediate interest in the meantime. Did I say forgot all about them? Well, no, somewhere at the back of their heads was a vague consciousness that they possessed certain "securities" which one day might inevitably "come off." They did. They came off the list of negotiable securities. Poor, pitiful financial wrecks! Lifelong savings, earned by the sweat of the brow, and simply squandered in high-sounding but execrable rubbish. Why? You would think that there wasn't another single share in the whole of the Stock Exchange list which gave one some little chance, some small prospects of a fair return.

Worthless Scrip.

"I would like to sell some of the enclosed securities, wrote an old lady, who, fortunately for her, happened to be of independent means, "because I have had them so long, and I think the time has come when I might be able to buy something else with them."

Notice, she would *like* to sell.

So would a good many others, if they had the chance.

Now I call these boxes containing such securities the mausoleum of misguided investors. The death certificate would be variously marked such as: Unnatural causes; perfectly natural causes; suicide whilst of unsound mind; dead but shall live again (alas, for more stupid investors); died through overloading his—but why go on. The list is almost endless.

Yet their history could be seriously summed up under two main heads. The owner was either afraid to cut his loss. Or he was too greedy to take a profit.

At one time in the chequered career of each of these securities it was possible to do either. Now it is possible to do neither !

Get Out !

I don't know which comes first in the order of importance. The tenacious dealer in stocks and shares *outside the House* is legion. He won't admit he has gone wrong ; he hasn't the pluck to sign away certain losses, and he *lacks the sense to get out while the going is good.* Nowhere else does hope spring eternal so assuredly as it does in the breasts of those clients who see their securities sagging, or in a dull, lifeless condition.

"They'll come round some day," he says.

The Sensible Broker.

Now among the good many hard things said by the critic about the broker is that when he deals for himself he takes his profit and gets out quick. That is perfectly true, and the broker is the first to acknowledge to it. He does get out. Not because he is craven and won't risk going on a bit, but because he himself has learnt the sterling value of the two golden rules of the Stock Exchange—

CUT LOSSES.
TAKE PROFITS.

When he sees a small profit he snatches it with the complete assurance that he is doing the right thing. He knows that in five cases out of six those shares will

react. And if they don't he doesn't mind. He is safe at any rate.

He acts the reverse way, too. When there is a small loss, and the hopes which he originally entertained, and upon which he based his purchase, do not look like materializing soon, *he at once outs his stock.*

Take Your Profits!

Nor does he keep these rules as passwords to be used exclusively among the secret society of brokers and jobbers. To my own knowledge he is constantly endeavouring to pass on this sound advice to unwilling and unthankful clients, just as I pass it on to you in black and white.

No wonder one hears of the broker's lament! Just as nobody cares to wipe off admitted losses, so do few investors care to shut off what looks like a rising flood of profits.

"Why, man! Don't you see they're going up? I told you so. *And you want me to get out just as they are on the move!*"

The scheming, self-opinionated, selfish broker!

And yet if you are able to get the average investor aside, or, the irony of it, if you are able to extract confessions from many brokers themselves, you often hear the inevitable squeal—

"Ah! If I had only taken my profits!"

"Sell and Regret."

The bankruptcy court should have this golden rule of business emblazoned on its portals. They try to impress the rule upon the client by means of varied

but equally pointed phrases among Stock Exchange brokers.

"Don't cut your profits and run your losses."

" Leave a little for the other man."

" Sell and regret ! " meaning, of course, that one can afford the luxury of regretting the additional profit one has missed.

" Cut your losses and get in again lower down."

And above all—

DON'T BE GREEDY !

Depressing as it is to cut a loss ; difficult as it is to take a profit, particularly in a mood of jubilation—*never fail to do it.*

That is the only way to make and save money in stocks and shares.

CHAPTER X

AVERAGING—OR WAIT!

AFTER this, you will look askance at the heading of this chapter. Averaging—how and why? If you are to cut losses, how can you average? If you are to take profits, how can you do so—and buy more?

Ah, if dealing on the Stock Exchange were simply a matter of learning a few rules by rote, it would be a very tame affair.

Luck may often play a great part in fortune-hunting, but *always* there is the considerable need for exercising discretion, balancing judgment, and utilizing knowledge.

When in Doubt—Cut!

It is perfectly safe—when in doubt—to apply the rule of cutting losses; but there are times when such losses may be reasonably regarded as *temporary* depreciation in share value, and not as irrecoverable loss. The fall in many a stock may have a perfectly natural explanation. Temporary general trade conditions may account for it, a national or local strike, a fire at the works, or other misfortunes which are purely of a temporary character. Unless these drawbacks are of such desperate proportions that an early recovery is not likely, the investor is foolish to sell stock before it has a chance of recovering. Remember, a fire for instance, may be well covered by insurance. A strike may be of a very short duration, and a spell of bad trade is nearly always followed by a wave of prosperity.

Therefore, you should not be in a hurry to throw away shares that stand a chance of appreciation later on.

When to Average.

The fall in your securities may be due to intelligent anticipation of what the forthcoming balance sheet is likely to be. A sound concern, for instance, may have a bad year, but you yourself have reason to believe—no mere shadowy assumption, but opinion based on knowledge—that the depression is but a phase which *is passing and may have almost passed* by the time the balance sheet is printed and circulated. The balance sheet itself may justify the pessimism, but it will deal only with events that are long past, *and will not take into account the good business that has since taken place.*

This will be revealed at the general meeting which is to take place later on. Until then, those who do not know of this recovery in the company's fortunes have only the rumours of the unpleasant balance sheet to guide them. If you are fortunate enough to be aware of the better news, you will not be justified in selling.

Instead, here is a case where you might *average your holding*—in other words, buy a few more shares at the lower price, so that they—and those you already have at a higher price—*average out at a lower figure.*

A Case in Point.

Thus on 1st January, 1926, you bought—

1,000 Perak Rubber at 6s. per share = £300 odd.

On 31st January, owing to the mismanagement of the

Stevenson Scheme they have fallen (I hope not !) to 4s. per share.

But it is known that the company has made considerable advance sales of rubber at a higher price—and that the Colonial Office is going to get out a scheme which will definitely and conclusively safeguard British interests rather than be so framed as to suit the susceptibilities of our commercial rivals.

You now buy a thousand more Peraks at 4s. per share. Thus—

1,000 at 6s.	=	£300 odd.
1,000 at 4s.	=	£200 odd.

Your average price per share is, of course, 5s., so that when the price reaches 6s. again, you may be inclined to sell your original 1,000 shares at the price you gave for them, and net a profit of some £50 on that transaction besides retaining the remaining 1,000 shares, which give you a good margin of safety.

Overdoing a Fall.

There are other reasons which may suggest the advisability of averaging.

There may actually be bad news unrelieved by the prospect of subsequent better news.

But the fall in the shares is being overdone. Even if the worst has happened they may be worth more than a crowd of weak sellers have made them. It would be absurd to follow in the wake of this panicky movement and sell at a price much below their true value.

Comes the question—

"Are the shares likely to turn upwards? If so, when?"

You will, of course, make inquiries, or have inquiries made by your broker, of such inner sources as are available. Then check the information, if you are able, from a further source. It necessitates a certain amount of trouble, *but it always pays.*

Wait!

If you find there is no reason for you to alter your original belief about the shares, *wait a bit.* The market may either turn or some weakness which has not been apparent to you before now manifests itself. *This* justifies you to sell at once.

If after waiting and checking anew your original information, you find there is nothing radically wrong, either with the company or in the technical position of the market, you are justified in buying a few more shares at the lower price.

Now I have made it clear in this book that the suggestions and advice I offer are all based on first-hand experience, and the reader is entitled to ask at this juncture how I myself actually fared in respect to these phases of profit finding. Well, we shall see.

In the preceding chapters I have endeavoured to show (*a*) when it is time to take a profit, or (*b*) when to cut a loss. And now I have introduced a third possible course, viz. (*c*) averaging.

Five Broad Principles.

Before developing this third course further I wish to draw your attention to a fourth and fifth course—

(*d*) Wait.

(*e*) Selling half your holding.

The reader is now in possession of the five broad principles which may govern his dealings.

That is, *if he wishes to invest or speculate sensibly and not automatically or according to his mood.*

Temperament, unfortunately, plays far too large a part in Stock Exchange dealings, with the result that clients instead of having before them and considering the points I have set out above, simply let the mood of the moment sway them.

You, dear reader, should endeavour to overcome or at least guide such natural impulses from the "control top"—*your head* !

Your outlook on life generally may be perfectly healthy and roseate. Your digestion may be particularly good. Your blood may respond and quicken to a nice sharp, sunny morning !

Or you may be of the reverse type. You may waken early every morning to the barking of an undisciplined dog—as I do—or the porridge may be cold—as mine never is, because I do not take it. Your mood may at once respond to the darker side of the morning news. Mr. Cook again ! Or Russia ! Or the Government—whichever it happens to be—dragging the country to the dogs.

Avoid Moods !

Shares, unfortunately, do not respond to your moods.

Therefore, leave these moods at home, both of you, Mr. Optimist and Mr. Pessimist, if and when you make contact with Capel Court.

Use your faculties only—your brains, your reasoning power, your judgment.

Properly used, they may guide you to the opposite direction to that which your mood dictates. Before I was schooled I bought my shares during "outbursts of confidence," and had a bout of selling during a wave of gloominess.

My cheerfulness predominating, I usually refused to take small profits, and certainly would not cut losses.

In defence, let me add that I always gave what I considered a perfectly sensible reason to back my diehardism!

I would retort to a broker who prompted me to sell—

"Why should I take a 'nice' profit? What is a 'turn' (as they call it in the House) to me? *I bought those shares because they were worth buying,* and just as soon as ever I have bought, and they move and give me a tiny profit, you want me to sell them. If they're not worth a better profit than this, you should have said so *before* I bought them."

"Selling Half" is Sound.

"Then sell half your shares," the broker would plead, "and then you can play a little longer with the other half."

"Rubbish!" replied the budding financier. "*If there is any real reason to sell half, it should apply to the remaining half*: if I stand to make a better profit on the remaining half, why shouldn't I retain the first half, and so make a bigger profit on the whole?"

"Oh, as you will!" said the broker who hates "argyfying."

Yet, if I had scored a dialectical success I sooner or later lost the real game.

"To sell half" was the *right thing to do every time I was in doubt.* And I wish I had; for it was the soundest advice imaginable in the circumstances. Some of these stocks, far from showing a bigger profit, now sagged, and you may be sure that since I had let the opportunity go by in face of my broker's advice, I wasn't going to throw up the sponge now. So I waited —sometimes a year or more before either taking the same profit I could have made a year back, or actually being glad to get all or most of my money back.

Such things are being done by tens and thousands of investors every day.

Don't you be among them!

Altered Conditions; Altered Views.

On the other hand, a share I had bought *with the approval of my broker* might fall back slightly.

"I should out them," he would say, with perfect composure.

"What!" I would hurl at him. "*Out* them? Why the dickens did you suggest buying them at all?"

"*They looked good then*; but I don't like the market *now*!"

This was hard to swallow then, and even now I have to swallow *hard* in order to do it at all. For it is opposed to all sane reasoning, and is contrary to that other injunction of old and wise financiers, namely: Before dealing TAKE A VIEW. Meaning: Look ahead and ponder first over what you see. Is it your view that things are going better or worse? If better, buy and stick to your view; if not, sell—and keep on selling.

Yet this advice overlooks one thing. It is an *important point to realize that such views change from day to day, and sometimes from hour to hour.* Market conditions depend for stability upon so many things, not only the thousand-and-one home affairs, but foreign affairs about which we have incomplete knowledge.

What if Paris suddenly begins to unload—as we saw in the case of the fluctuating franc—where is your roseate bullish view now ?

Why Investors Lose Money.

I hope what I have written may help to stimulate your views and enable you to perceive some of the many problems that the knowing investor has to face.

Could you imagine a more varied and uncertain life than that of the speculator who contrives to make a living from such financial finessing ?

Do you still wonder why success is for the few, and that the great bulk of investors who make no effort to master even the rudiments of the game, go under ?

Surely, if such a game is worth the candle at all, it is worth some study. Besides, it is all so fascinating, and pays in thrills for occasional losses.

Six Useful Points.

I want the reader of this book to get much of both interest and profit from his Stock Exchange dealings. And so I repeat to investors of big and small capital dimensions—

First. Take profits ; indeed, snatch them—*with both hands* ! S.P.Q.R. !

SECONDLY. If a share upon which you have built certain hopes fails you—cut your loss. Get out!

THIRDLY. When such a share falls out of all proportion to the real cause, and you believe the selling has been overdone—consider whether you should average; or

FOURTHLY. Perhaps the true reasons for the fall are not yet apparent. Make inquiries first before acting. Neither average nor sell; just WAIT. The market may either turn or some weakness which had not previously been apparent suddenly become manifest.

FIFTHLY. When in doubt whether you should take a profit—*sell half.*

SIXTHLY. Never average a "rubbishy" share; in other words, don't throw good money after bad.

CHAPTER XI

ON THE BEAR TACK!

"THIS is.a curious thing," said a novice to me one day. "My father is an old friend of the B.S.X. Company's managing director, and I gather things have been pretty bad with them during the last year. Valuable information—but valueless, for how can I use the information?"

"Sell the shares," I replied promptly.

He smiled pityingly.

"But—you clever Dick" he retorted, "I haven't got any to sell—worse luck! Funny thing, isn't it, that you can only take advantage of "good news" on the Stock Exchange?"

To some extent my friend guessed rightly. It is easier to take advantage of a bull point than a bear point. In other words, it is easier to buy shares you don't want to keep than to sell shares you haven't got. The latter process, as I have mentioned elsewhere in this book, is known as going on the "bear tack."

Bear Snags.

You wish to sell shares *now*, in the hope of being able to buy them when they have fallen.

Thus: On 7th March you sell 1,000 B.S.X. at 10s. It becomes at first merely a paper transaction. On 10th March the shares have fallen to 8s. You promptly buy 1,000, and make a nice little profit, about £100. Money for jam.

Let us look for the snags now. And there are many.

First of all the shares may not fall so quickly. They may not fall at all. In either case what are you going to do ?

(*a*) Buy back the shares and cut your loss ?

(*b*) Try and "take them in ?"

To "take in" a share is just the reverse of carrying over—or to use the technical term "giving on." A jobber "carried over" your Esperanto Deep in the mining market. On this occasion another jobber in the industrial market—B.S.X. being industrial shares—will be asked to afford facilities which will enable you to "continue the transaction" on the other side of the ledger.

Behind the Scenes.

In the case of Esperanto Deep there was a consideration for his doing so. He charged you interest. Now it is a different matter. You pay him nothing for "taking in" shares ; on the contrary, *he has to pay you* a small rate of interest.

Therefore he will "take in" shares only when it absolutely suits his book.

He may perhaps be a bull himself, and he takes the view that the shares are going better ; or, what is far more important, that he may have many brokers wishing to "give on" shares. Or, as often happens, arrangements may be, as many contangos are, with broker and broker. I explain all this in order to give an occasional peep behind the scenes, and so that you may understand some of the often difficult machinery

of what may appear to you as an ordinary, simple transaction. In actual practice you need not worry yourself about *how* it is done, so long as it *is* done.

The Advantage is His.

Whoever accommodates you then may believe that *sooner or later you will have to buy back the shares at a higher price from him.*

Surprising as it may seem, he has the advantage over you in knowing the technical position of the market. You believe, naturally enough, that your knowledge of the company's bad position makes it a safe transaction for you.

"The shares *are bound* to go down," you justifiably repeat.

To you it would seem that the position of bears can scarcely be challenged when the true state of the company's position becomes known. On the face of it this does seem unanswerable. Yet here again we find ordinary logic and common sense upset by that peculiar disturber of well-thought out plans—the technical market position. I repeat: *to understand and appreciate this point is of first importance to the speculator.* Without such a knowledge you may just as well play with one who uses a loaded dice. If the market factors are against you, and in spite of this you persist in selling shares you do not hold, in the belief of being able to buy them back at a lower price because you happen to know that the forthcoming report of a company is going to be a thoroughly bad one, you are just courting disaster.

See now what actually happened in the case of B.S.X.

What He Forgot.

It was, indeed, a fact little known to the *outside* public that the company had been investing in a new line of business, which had turned out disastrously. But what was also a fact which my friend did not take into consideration was that, although the outside public did not know the true state of affairs, the *tip to sell had been going round*—always, of course, with the definite undertaking to "keep it to yourself," but circulating in different channels, nevertheless. Directors, secretaries, brothers, sweethearts, and wives were all out "to make a bit of money" not only in selling shares they actually held, but in selling "a few hundreds" they hadn't got. Some, of course, sold in thousands.

The first onslaught put the price down a bit. Those in the First Line of Knowledge probably sold at sixpence or ninepence a share higher than those in the Second Line of Knowledge, who were then allowed to attack. By the time my friend got "the private wire" many things had happened. One big thing in particular—

A bear account had been built up.

In other words, there were many thousands of shares *oversold*, and the market (i.e. the jobbers) knew that these would have to be repurchased. They weren't going to help these bears by putting down the price lower than they could possibly help, and, further, they weren't going to aid the bear party by granting "taking in" facilities. They might do so for an account or two at a prohibitive rate of interest.

But all the time you stood the risk of their suddenly refusing to go on taking them in.

Result: a scramble on the part of the bears to buy their shares back—which the jobbers willingly obliged at a good profit to themselves!

My Friend is Caught.

I intended to give you an interesting example of how a friend of mine was caught in the chapter on "Tips," for it was the result of one of those well-meant pieces of advice that he and others were let in. Since, however, it helps to clinch the advice I wish to give to speculators "on the bear tack," I will include it here.

It affords another instance of the difficulty of dealing against the technical position of the market. When that outstanding personality in the industrial world, Lord Leverhulme, died, the first impulse was to sell. The genius of the great firm of Levers gone, surely the firm's affairs could not possibly improve; obviously, then, the *master's death* must prove a bearish factor. It was believed that the shares which would suffer most would be the 20 per cent 5s. deferred shares. A great rush of selling put the price of the shares, which stood at around 11s., down to 9s. 6d. or so. At this lower price the "shop" which supports Levers came in and took shares. The price rallied. It was, to give it a military parallel, the first onslaught which shook the front line of troops; then came support, and the line rallied.

[*Note.* "Shop" as a term is used to indicate the financial group which is most interested in a certain share or stock. It may be the bank or a group of men responsible for floating the company, or it may be a

group of speculators or investors who own the bulk of the shares.]

News Discounted.

Well, support for the Levers that had been dumped on the market was forthcoming from somewhere. The bears stood back ready to make the next onslaught. Another big line of shares was flung on the market. The price sagged a bit—and rallied in part!

Here you might interpose with—"Yes, but the shop neither could nor would go on taking *all* the shares that were being flung on the market." Probably not.

But the certain knowledge that a good many people were "selling bears," definitely encouraged the shop to take all the shares that were being offered *at the lower prices.*

One of my friends, who is not a financier, but is in an influential position, got to hear from "the right source" that it was right to sell. He knew of my dealings on the Stock Exchange, and rang me up to ask me if I could sell for him a bear of 4,000 of these shares through the best of my brokers! I said I would try, and by making inquiries found what the true position was.

I discovered that the death of Lord Leverhulme had not only already been discounted—he had been in grave ill-health for some time—but that "the market" thought, that far from this being a bear factor, the death of a financial dictator might help to straighten out some of the problems that had once beset the board of directors. Instead of one brainy but headstrong man trying to carry the huge financial problems of the

firm a strong and capable body of business men would reign instead.

"Take In" Difficulties.

At any rate, that was what the market thought at the time. And that was only one point. The second and chief reason they gave me against selling a bear was that it would be difficult to "take in" the shares. That if I sold the shares I would have to deliver them, because it was not possible to borrow the shares or to arrange with the jobber to "continue the transaction." I told my friend all this; but he was adamant.

"The market doesn't know!" he said.

He placed great faith in the source of information which was at his disposal. Levers, he had been told, had decided to pass the dividend on their 20 per cent.

"The shares will slump to 2s. 6d. by July," he said.

It was now May. One could make a nice little pile by then!

So I sold a "packet" for him through two firms of brokers, both of whom had told me of the risk—advice which I passed on.

Now see what happened. Besides my friend, a good many others, who were of his opinion, did the same. A sold 4,000 shares he hadn't got at 10s. each. B sold 10,000, C sold a few thousand, and so on. *All those sales were accepted by the bull party, which was out to defeat this move of the bears.* Carrying-over day came, and the shares had not moved sufficiently for the bears to take a profit. Therefore, A, B, C, D, and the rest wanted to "take in" or "to borrow the shares."

Then they discovered the first difficulty. The bulls refused to "give on" the shares.

"You sold us the shares," they said, "and we want you to deliver them."

"But we haven't got them"—the bears had to say.

"Then buy them!" was the answer.

The Bulls Triumph.

This move had been clearly anticipated by the bull party, and the price had been moved up by them in consequence.

What actually happened in the case of Lever 20 per cent Deferred was that the shares not only showed resistance to bear pressure, but actually went higher. So that A, B, C, D, etc., who had sold shares they hadn't got at 10s. and 9s. 6d., found they would have to buy them back at 11s. 3d.

The rush to "cover" or buy back, by those who had rushed to sell in the first instance, sent the shares up even higher. The bears were routed.

In order to help my friend I asked my brokers to make a special effort to "take in" or borrow shares. They tried, but failed.

"*They all want to do the same thing, and the market is short of shares,*" was his report to me.

We waited until the last moment, and then yielding to pressure, had to buy for cash at over 11s. That little bear deal cost my friend over £200.

I had warned him of this eventuality—for hadn't I been bitten myself in this sort of manoeuvre in my very early days—but he was game enough to risk the hazard.

It paid him, too. *For it taught him a lesson.*

"Never again on the bear tack," he said.

Don't Sell Bears!

I ought to add that both in "carrying over" and "taking in" shares it is far easier to operate with bearer shares. Shares which are registered in the holder's name are sometimes difficult to borrow.

To sum up—

Selling bears is a highly technical operation. Unless you are an advanced speculator don't do it! If you must, *arrange beforehand* about the "taking in."

But remember that this course is like showing your cards in advance.

Once more my advice is to *study the technical position before operating* and, if you must go on the bear tack, remember that bearer shares, especially if they are well known, are easier to arrange for such transactions.

CHAPTER XII

FOREIGN BONDS

I PROPOSE to devote a short chapter exclusively to the leading foreign bonds, because there has been a marked increase in activity in them since the Great War. This has been largely due to their low speculative prices which, in turn, are due to depreciated currency.

However, the habit of dealing in a particular class of stock is difficult to throw off, and a good many small investors are taking a hand in the new foreign issues.

Such investors, too, are attracted by bonds in preference to shares, because they are bearer, and are more easily negotiable. Besides this, there is no stamp and fee to pay—a big consideration after all—and the rate of broker's commission is low in comparison with other securities.

Above all, foreign bonds yield a high rate of interest.

The Big Risk.

I have put this consideration last, although in the view of a good many investors it should come first. But I have put it last, and have italicized it in order to emphasize particularly *where the big risk comes in.* Have I not already told you of that axiom of gold: the higher the yield, the greater the risk? In no other class of securities does it apply with more force than here.

The history of a good many foreign bonds makes melancholy reading to the financial student. The

post-war record of several countries is bad enough, but you may go further back than that. What a long list of defaults! What violation of national pledges! What mean excuses to ruined investors, and what a shameful exhibition of financial trickery!

You may be sure that if it needed little excuse in the past to default, what a great opportunity was afforded when the Great War came. The example of Germany in inflating her currency until she had practically wiped out her internal national debt was a temptation which victorious France bitterly but valiantly resisted, although some inflation was inevitable. At the time of writing, the 4 per cent and 5 per cent Rentes, stand at 12 and 14 respectively, so you see that even investors in French Government bonds suffer immense losses. Turkey—well, it is difficult to understand how the most sublime Porte contrives to go on obtaining fresh loans from its creditors. Russia, of course, having chosen her own destiny, which is her own affair, can hardly expect more money from her capitalistic enemies! Mexico is out of all question a very dangerous country in which to lend one's money. Time after time she has entered into commitments which succeeding Governments have subsequently disowned. China, too—poor China!—is an uncertain country despite its hosts of optimists. There are far too many conflicting fingers in the pie here to make the future of this amazing country easy to prognosticate.

Danger Signal Everywhere.

Wherever you turn, in fact, the danger signal is evident in regard to some foreign bonds or other. In

point of fact, no investor or speculator who wishes a run for his money need look in this direction. Or the only run he will get—will be *after* it! For the big banks and foreign politicians who are behind the scenes, yes; but for the outsider—*jamais*! And I shall show in the chapter on "Tips" that even big banks and prominent foreign politicians have sometimes burned their fingers in this very hot pastime.

For you, as an ordinary investor, it is well nigh impossible to understand the curious code of financial honour which is accepted by the Big Moneyed Interests. It pays them to overlook the defaults of totally conscienceless Governments. For with every new reconstruction of old loans they make a good margin for themselves before distributing the burden among the general investing public.

German Pre-War Loans.

Germany, for instance, having lost the war, half her possessions, and having become a Republic, wilfully wipes out her debts, and ignores those who accepted her word and bought her bonds before the war, but she was nevertheless able to float new loans successfully with the utmost ease on the international market. In fact, the new foreign loans resulted in a scramble by those who had forgotten the past financial history of these countries, and at the time of writing her own and other reconstruction loans are firm and seemingly well secured.

I am told by those who would acquit Germany of any blame regarding the virtual repudiation of her internal loans that the same thing happened after the French

Revolution, when the same inflationary process occurred to the *assignats*—the currency notes—so that they became as valueless as the German mark became after the Great War. Then the French peasants publicly burnt the notes; in Germany they hope on till the end. Those who would aver that Germany did not wilfully depreciate her currency are entitled to their opinion, but we have the example of France and ourselves, who chose the harder but more honourable course of standing by our currency, and those who had accepted the bonds of that country and our own. In any case, the point I wish to make clear to British investors is that they run a risk in engaging their money abroad. Stand by the bonds of your own country!

Turkey's Debt.

See how much of this finesse is due to political considerations. Statesmen made a fuss about Russia's default at the very time they were bolstering up Germany's bankruptcy. At that time holders of Russian bonds were able to sell them at some twenty times the price obtainable for Germany's bonds. Yet Russia was denied the loan "on account of her defaulting," while not a word was said about Germany's deliberate policy of deflation which resulted in her bonds being depreciated until they were worth no more than a few shillings. Why? You may well ask. Neither logic nor a sense of equity helps us to unravel the mystery. Yet there can be no doubt that in these negotiations for new loans between the big international financiers and foreign Governments, those who float the loans

have every advantage, and those of us who come in later take all the risks. Take Turkey, for instance. The Unified debt has fallen at the time I write from 70½ in 1919 to 22. It has, of course, been much lower.

Small Investors Ignored.

Negotiations are proceeding between the British, French, and German bondholders and the Turkish Financial Mission. Now the multitude of small investors are not consulted in these supposed arrangements at all. The big financiers may decide to accept a quarter of what you originally paid for your holdings in settlement of Turkey's outstanding debt, and at the same time agree to float a new loan for her. Obviously those who have taken upon themselves to negotiate this settlement on your behalf are in an advantageous position. If Turkey's terms are reasonable her old bonds are going to appreciate commensurately, but the benefit of buying the bonds *when they are low* will be not yours but the big financiers, for they will sell you the bonds *after* they have appreciated. Should the negotiations become endangered, and if they are likely to be broken off, you again will be the victim, for the international financiers will get out first, and leave you to paddle your own canoe.

Where You Come In.

It is, I emphasize, the small investor only who is caught every time. It is your money which is lost—not the big money. You are first in and last out. When settlements are made on a new basis, the same

financiers, still in clover, are quite prepared to raise fresh money—loans to which you eagerly subscribe—under conditions advantageous to themselves.

My advice, therefore, to you is, generally, to have nothing whatever to do with foreign currency bonds. Certainly don't subscribe a penny to any new foreign loan until those countries asking for such loans have made good their past defaults. Rather sweeping, you may think, in view of the new Belgian 7 per cent, German 7 per cent, German Potash, Hungarian countries and others, but what is to prevent history repeating itself in the event of another war?

Buy British Bonds!

It is, needless to say, a matter of pride that Great Britain is almost alone among the countries who were hard hit by the war, and have paid their obligations in full. The moral is obvious. Far better for British investors to accept a smaller interest, and have the satisfaction of dealing with somebody whom they know will give them a square deal rather than with somebody else whom they do not know, but who offers them a big yield and a bigger risk which is out of all proportion to the advantages.

An Illuminating List.

In order to clinch my argument I have taken at random the list shown on the next page of foreign bonds, giving their comparative prices spread over the years 1914–27.

These actual figures tell more than I could in a whole volume on foreign bonds.

	1914	1915	1923	1927
Austria 4% .	90¼	64½	5	22
Bulgaria 6% .	104	94¾	25	31–33
Egypt 3½% .	92¼	60½	42½	71–72
French 5% .	—	81¾	22	12⅝–15⅝
German 3%	79	58½	½	½
Greece 5% .	91	60	25½	55–59
Hungarian 4% .	87⅝	60¼	4	22–24¼
Italian 3½% .	98	79½	17	14¼–16
Mexico 5% .	89	68	28 (1924)	40¼–47
Norwegian 3% .	78½	73⅛	52 (1924)	63–65
Portuguese 3% .	64 15/16	55½	20½ (1926)	32–40
Prussia 3½% .	87	65¼	⅙	½
Russia 5% .	122½	107½	6 (1926)	6–6¾
Turkey 4% .	87	62	14 (1926)	21–24

Mexico's Default.

You might insist, "But isn't all this due to the very special reason of the Great War?"

The reply is that if the excuse of war is the reason for wiping off one's financial obligation, and since the possibility of war is never *so very* remote—far better stick to the securities offered by your own country. Then *your* fortunes are dependent on *her* fortunes, and since the average Englishman is usually prepared to lay down his life for his country he should be prepared to go down with her financially, *and not go down alone when she has been victorious.*

Furthermore, the Great War is not the only excuse that can truthfully be put forward by these foreign countries. Even when a settlement has been arrived at they have not kept to the terms. For example: Mexico, after making the first payment in accordance with the agreement she entered into with the Committee of International Bankers in 1921, *failed to pay the second instalment.*

The financiers in the know got out of their holdings. The small speculator was left standing dry!

Not a Bob!

Do you require any further evidence of the utter futility of expecting a fairly certain income from investments in foreign bonds? If so, I would refer you to the latest Report of the Council of the Corporation of the Foreign Bondholders. Read this and you will obtain an insight into the extraordinary light manner in which so many of these foreign states enter into obligations, and with equal lightheartedness repudiate their written word. The history of some of these defaulting debtors makes strange reading. You will ask yourselves, having glanced through the financial records of some two dozen or so big countries and small states, why they have the audacity to come again to Great Britain when they need money. And do not mistake it—the blacklisted States will come again to collect our coin. They will get it, too. But don't let it be *your* money. Not a bob!

CHAPTER XIII

Tips!

And now I come to the intriguing subject of tips—surely sufficient wealth of material to afford an entire volume on its own.

One hardly credits it, but it is a fact that a good many people venture their lives and their fortunes on what they believe to be self-inspired tips. Something "tells them" to do or not to do such and such a thing. A man "fancies a horse" he knows nothing whatever about. He is ignorant of its form, its weight, or its starting price. Yet he backs it. Ask him why, and he replies vaguely but with an air of mystery—"I don't know. But something somehow told me to back it." Probably its name has subconsciously suggested a favourite aunt or a seaside place. Or it affords some striking coincidence in its association with the name of his dog or the colour of his coat, so that he concludes it to be a sort of roundabout message from Fate to himself.

Not Heaven-Sent!

Suggest to him that the message is *not* heaven-sent, but merely one of the numerous coincidences that happen in everyday life, and he regards you as a rank materialist. Therefore he backs the horse, and should it unfortunately win he will go on looking for and accepting these "inspired tips" in the unfailing belief that the accumulating losses are of a temporary character.

The same sort of thing happens with stockbrokers' clients. There may be, indeed, a few heaven-sent financial geniuses who can never do anything wrong. What they touch turns to gold. A "dud" mine suddenly gives forth "gems of purest rays serene," as soon as they buy a couple of hundred shares. Ask them how it so happened they managed to get in before the rise, and their answer is the same as the racing man's. They had "the feeling" that it would come right some day.

An Unsound Habit.

Another type of mystically inspired genius prefers to surround himself with a more material and self-imposed glamour. He it is who whispers "I know something . . ." That is all. And it is enough for the most stupid investor. Of course, in ninety-nine cases out of a hundred his tips never do come right. But the hundredth instance is so striking and so widely advertised by him that he comes to be known as the man whose tips can be relied upon.

This unsound habit of buying stocks and shares on the flimsiest tip is amazingly widespread. You would think that mankind had purged himself of his natural failings and had become pure in motive and infallible in judgment. To hear how the most self-interested tips are accepted unquestioningly you would believe that financiers had become a New Brotherhood of Saints, with Capel Court as their centre.

Alas! Utopia is still a long way off. So that tips that are offered by even the most angelic-looking gentlemen should be examined by the investor in the

light of the rules I have laid down in the preceding pages.

Classes of Tips.

Briefly, tips may be classified as follows—

1. The self-inspired.
2. Tips founded on a baseless rumour.
3. The skilfully-propagated tip.
4. The tip based on mere hearsay.
5. The tip based on first-hand information.
6. The tip based on facts and figures.

The first we have soon dismissed. Mysteries have no place in the matter-of-fact world of stocks and shares. If you fancy a share find out *why* by a process of reasoning. That is common sense.

The tip based on nothing but the veriest rumour is difficult to account for otherwise than under category No. 3. Yet sometimes a rumour does get around which cannot be attributed to either bull or bear parties. It just springs up from nowhere, and gathers in volume until it leads to nowhere. Usually, however, the explanation is perfectly understandable. It is being cunningly circulated by interested parties who wish to influence others in either buying or selling certain stocks or shares. If they wish to sell, they will spread a bullish rumour, and if they wish to buy they will hint at some impending disaster. So that there are men in the Stock Exchange whose motto is "Listen to tips, *but do just the very opposite.*"

A Post-War Tip.

Yet there are heaps of people who will swallow any rumour that floats about. Once more it depends a

good deal on that strange and uncertain quality about which I have written—temperament. If you are naturally optimistic you will accept any piece of good news that comes your way, and you will disregard any warnings of snags and go right in.

For instance, there was a general tip after the war to buy foreign stocks, but this actually had a basis in fact—namely, that there could never be another war so soon after the Great War, and that the extremely low price at which these foreign bonds stood as a result of the war was unjustified. Therefore, said the tipsters, it is time to buy.

An examination of the situation, however, would have revealed innumerable other dangers besides that of war. There were, for instance, certain political and financial disputes pending which, while they offered no possible suggestion of war, nevertheless pointed to an interminable uncertainty. While these continued there could be no appreciation in these Government stocks of the countries concerned. Nothing serious might be contemplated, yet at the very least there could be no activity in the stock.

How They Reasoned.

Again, an analysis of the respective debt positions would have revealed a very unhappy state of affairs. That the relations between Great Britain and foreign countries must sooner or later improve was a fair guess, and might justify the tipsters. But even that did not dispose of the problem of the *bankrupt state of these countries.*

"But—" replied the tipsters, "That makes the

possibility of appreciation all the more hopeful. These countries will have to raise fresh loans, and before such loans can be successfully floated they will have to come to some settlement with the bondholders."

Now that was actually the deliberate reasoning of men on the Stock Exchange whose views were entitled to the greatest respect. Let us take an actual case in point, and see how it all panned out. There was Turkey. Among the loans dealt in considerably in London are three Turkish loans. The first and most active of all is the Unified. The second is the 1908 loan, and the third the 1909 loan. As soon as she entered the war, Turkey naturally ceased payment of her interest on these bonds—interest, by the way, which is paid by coupons.

A Tip in Turks.

The Unified loan is at the rate of 4 per cent, and when war was over the arrears of interest, which had accumulated throughout the years of war, then amounted to a considerable sum. Speculators now naturally asked themselves how and when would Turkey resume payments of the current interest on the loan, and whether she could pay the arrears? The price of the loan had fallen away considerably during the war, but began to pick up on prospects of a financial settlement with bondholders soon after the armistice. The bonds then stood as follows—

Turkish Unified	Low	66
	High	70
1908 Loan	Low / High	56½
1909 Loan	Low	54¾
	High	55

Yet nothing seemed to happen, and prices did not move. One day a tip was whispered in the Street to "buy Turks." Lord Curzon, it seemed, was going to Lausanne in order to bring about a settlement on the outstanding points between Great Britain and Turkey. The bonds began to rise.

That was a tip, as you perceive, based on intelligent anticipation and a certain amount of legitimate reasoning.

Well, Lord Curzon did go, but instead of an early amicable settlement, rumours of "obstinacy" and "chicanery" of the Turks reached the London and Paris markets. The price of the Turkish loans receded. The situation now became grave, and was not relieved by Mr. Churchill's sabre-rattling cable of war to the Dominions.

"Things are looking pretty bad . . ." was the message passed on from ear to ear. The ominous word "War" was heard.

I Back My View.

Here I stepped forward, feeling a giant in my knowledge of international politics and of the psychology of a war-weary world.

"War—" I declared, "is out of the question. Winston is trying an old and oft-times paying game of beating the Turks at their old game of bluff. But this country will no more go to war with the Turks now than go to war with Timbuctoo."

Yet the seriousness of the situation was not to be disputed.

"If I felt as confident as you do," a jobber said to

me, "I would sleep soundly to-night. I've got fifty (meaning £50,000 nominal) of the blessed things on my book—and I wish I hadn't."

The tip was to sell. I bought instead. In a word, I backed my view against the market, reasserting that the difficulties between the two countries would be straightened out.

Right, Yet——!

As you know now peace was signed. I happened to be right. Well do I remember the occasion, for at the time I was out of London and picking up a copy of the newspaper which had just come in I noticed in the stop-press column a brief announcement of peace. At about nine o'clock my broker, excited and jubilant, rang me up from his house in London.

"Have you heard the good news?" he asked at once.

I told him I had.

"I congratulate you!" he said. "You stuck out alone, and you ought now to make a pile . . . . What do you want me to do?"

Certainly I felt bucked.

"Don't let us be greedy," I said magnanimously. 'Take a point or so and close the deal."

At half-past eleven I received a wire which I eagerly tore open, expecting to read of big profits.

Turks had fallen. Fallen on peace news! What was the mystery? In this case it wasn't the usual reaction on good news which had already been discounted. The market had long been depressed on the expectation of a possible rupture. I had backed the peace party, and the stock had gone down on the

good news. I confess that at that moment I despaired of ever being able to use intelligence and insight or a knowledge of international politics in relation to Stock Exchange dealings.

Why They Fell.

I cleared up the mystery when I got back to London.

A peace treaty between ourselves and the Turks had indeed been signed, but

> the chief clause which affected bondholders, the one relating to the settlement of the Turkish Loan, had been challenged by the Turks, who remained obdurate on this point, and rather than hold up the entire Treaty on a minor issue, which after all was an affair of the financiers alone, Lord Curzon had agreed to omit the financial clause altogether from the Treaty.

That, you may remember, was in 1920. I am writing this at the beginning of 1927, when I am hearing the same argument still being advanced by those who tipped Turks five years ago, namely, that the stocks ought to be bought and that Turkey will have to come to some amicable arrangement with the bondholders before she can hope to raise a fresh loan which she urgently requires. Nevertheless, from 40 they have fallen as low as 14, and at the time of writing have been jumping up and down around 19 and 23$\frac{3}{4}$.

The 1908–9 Loans have suffered a similar fate, and from 31 and 39 respectively in 1920 had both fallen as low as 6.

In these cases, however, the tip I had received from a reliable source worked out to my ultimate advantage for I bought some at 6 and sold at 15.

A Political Snag.

You see then that the information regarding both tips came from the same sources, and was backed by the same argument—yet one was disastrous and the other greatly profitable. The difference, however, was this: that in the case of the Unified there was a political snag, and it is to these snags that the reader should pay the closest attention.

So much for the Turks. Let us go to another point. Readers are aware that I have again and again stressed the importance of ascertaining market conditions before dealing in any particular stock or share. In no circumstances is this thought more necessary than when you propose to act on a tip. You may hear, for example, of a hint from a reliable source to buy a certain security and for once the tip may be right.

Yet after you have acted upon the information you find that you have lost your money.

You wonder why, and are ignorant of the fact that the real reason is that the technical conditions of the market have been against you. I gave you instances in relation to other angles of Stock Exchange transactions. They apply equally to tips. I could recount innumerable instances, but I will give you two or three.

Some Strange Tips.

An official of a big oil company told his friend it was right to buy the shares of his company. That man bought and incidentally told his brokers. (Note: no tip is an *exclusive* tip, and no tip is given by anyone who believes you will keep it exclusively.)

The shares moved a penny to twopence after this

combined action, and then sagged. For this reason: A strong party either genuinely distrusted the shares or saw in the technical position an opportunity to bear the market. They were strong enough to win. After my friend got tired of holding the shares, he sold (the broker had sold his own shares long ago in the almost invariable rule of brokers to cut losses), *and in a year's time the shares moved up.*

The official was right.

The information he passed on was right, but the effect of it took about a year to materialize.

Too Premature.

To my own knowledge this actually happened in the case of no fewer than 25 different shares.

Now there is an interesting lesson here worth observing. There are innumerable shares which are maintained by *sentiment* pure and simple. But just as sentiment may sustain, it can, and does, depress a share if the sentiment is an adverse one. In this case the bear party was able to spread about its disbelief in the company's potentialities. Therefore the shares fell. An almost similar position existed as regards Phoenix Oil shares. There were two distinct parties in the House. One was firm in supporting the directors in their optimistic views as to the immense possibilities of the company, and put the shares higher—while the other party (whether through vindictiveness or policy the reader knows ere this) declared that the shares were not worth par.

They "didn't like the people behind it"—always a safe enough plea to damn a share.

Another man on whom I could always rely declared to me that if knowing people behind Phoenix had bought the deferred shares at such a big premium the ordinary shares must be worth having, for the reason that no interest could be paid on the deferred shares until a dividend on the ordinary had first been declared.

A Point Overlooked.

He was right—in a measure. But he had not studied sufficiently the exact nature of the deferred shares. I discovered afterwards that these deferred shares ranked more or less as founders' shares, and that their value had no relation to the value of the ordinary shares.

In fact, a dividend of 50 per cent was declared and paid on the deferred, and only 5 per cent on the ordinary.

Later on another "tip" to buy Phoenix had more than one story behind it. One was that the Standard Oil was negotiating to take it over. (Note: Tips suggesting fusions are the most widely disseminated.) The shares rose. What happened, however, was that the Rumanian Government had agreed to pay the oil company compensation for the damaged wells.

You see here, then, that something was really on the tapis, but the bulls or self-important persons spread a "tip" of an entirely different character.

Periodic Tips.

Some tips go the round periodically. The same tips about the same shares very often, or the same ingenious story is shunted on to another share, by way of a change.

Yet most of the stories of "rigging markets," making the market dance, and creating a corner, belong to fiction in books and the films. At any rate, even minor Napoleonic deals belong to pre-war days.

Movements which in these days would have set the House ablaze fizzle out after much spluttering and alarums.

This has happened time and again. When conditions settle down to normal again we may have more fireworks in Capel Court and Throgmorton Street. In the meantime brokers are leading humdrum lives apart from the little excitement that the first straw or bowler hat gives, or the presence of a stranger within the sacred precincts of the House.

Brokers owe me a debt of gratitude apart from the business I have done. Besides being, as I am told, one of the very few who kept things alive during the darkest hours, I once for a wager got inside the House, and for another wager I raised a certain oil share by a certain hour. I won the first wager.

Creating an Atmosphere.

My second wager was with a broker. He had given me a tip, and instead of thanking him I laughed at him.

"You and your tips!" I said. "Only one in a thousand is any good, and how am I to know that this is the thousandth?"

He agreed, but persisted. Very gently but firmly I turned him down. The shares actually did go up threepence, enough for him to make a small turn (he would have small commission expenses, brokers dealing for

themselves paying only half commission to their firms if they deal as individuals), and then went back.

The fact is, tips are handed about the Street far too frequently to be of any use. I don't say that all these tips are spread by market riggers, but obviously they are passed from mouth to mouth in order to create the right atmosphere.

No doubt you have noticed that while speaking to your broker somebody will come along and whisper to him. Naturally you fall for it.

"What was that?" you ask.

"Oh, he suggests Anglo-Americans."

Then you say—

"Are they any good?" and the broker is non-committal.

Be perfectly sure he will not deliberately put you into rubbish, for he knows very well that it is easier to hold a client than gain a new one, and the broker has very often to fight against those who influence his clients for bad.

But in this instance you, having heard the tip "first hand" as you think, may instruct your broker to buy "only a few." The shares are sound, and you have to sit on them. It has meant a little business, however.

Disregard Most Tips.

Anyone should know that if half these tips were certainties brokers would soon be millionaires and retire. This is not the case. The majority of brokers —half-commission men engaged by firms of brokers— earn a fluctuating wage which comes to far less than the average client thinks, and life is not all honey, with

falling markets and disconsolate clients. I know several such men who are unable to take a real holiday; firstly, because they must keep in constant touch with their clients, and, secondly, because of the uncertain factor of their fortnightly commission.

Therefore, disregard tips—or, if you must heed them merely take a passing interest in them. Unless you yourself *really know something* first hand, let it go. You will find it as useful as the inevitable tip for the Derby.

My Own Tip.

It was in order to prove to my friend how easy it is to create atmosphere that I set about winning a hundred pounds.

At a given hour I rang up twenty-five brokers I knew with a piece of information which was true, but nothing to write home about. I instructed five of them to buy. By the end of the day I sold at sixpence profit. Of course, I had to go "all out" to bring this off. Every man I met was given the tip, and you may be sure each passed it on. But in this case it took nine months before my information became sufficiently official to warrant a big advance in the shares.

The same sort of thing happened to *Sunday Pictorial* and *Daily Mirror* shares. A greatly improved financial position was responsible for all sorts of bullish rumours. Every journalist seemed to have the tip. *Mirrors* were going to 8½ and *Sunday Pictorials* to 6½. There were ever so many men in the "know." Here again there were solid foundations for the 'tip," but hundreds of investors who imagined they were going "to get a quick turn" bought the shares for one

account, and finally had to sell before a profit could be procured. When the "certain" rises failed to materialize, the shares were sold, and *Pictorials* went down to $3\frac{1}{2}$, a drop of 25 per cent. A year later they recovered. Still the rumours went round. I received a confidential slip of paper from the usual good source. The facts stated were unquestioned. Well, supposing one bought 250 *Daily Mirrors*—now $7\frac{1}{4}$ as a result of this widely known tip—and 100 *Sunday Pictorials* at $4\frac{1}{4}$—total cost over £2,000, *Mirrors* being quoted 7 to $\frac{1}{4}$, and *Pictorials* $4\frac{1}{8}$ to $4\frac{3}{8}$. Unless one was prepared to take them up during that particular account, he would have lost about £80. To have bought them without being prepared to wait, as I know many did, was simply throwing money away. With a fluctuating market of that description it is well nigh impossible to get in and out at the psychological moment. Finally, both *Pictorials* and *Mirrors* justified the tips *given some two years previously*, but I wager few snatch-a-profit merchants made anything out of it.

"Shop" Manipulators.

"I believe the shares are all right, but I don't like the way they are manipulated by the shop."

This sort of remark has often been made to me by my friends in the House. If you are unfortunate enough to deal with an unreliable broker—inside or outside—you are a certain prey to this formidable type of financial vampire. There are, unfortunately, far too many dud shares quoted in the unofficial list of the Stock Exchange, which are the undoing of the unsuspecting investor.

Little groups, which often include the directors of these concerns, make arrangements for a *sub rosa* pool with the worst type of jobber and broker. They are able to manipulate the price of the shares once they can interest a possible client.

Looking Backwards.

Nothing is more useful to the student of "comparative values of tips" than a research into the tips of the past! Sometimes it is unkind to well-meaning tipsters; at other times it produces a feeling of limpness: "*Oh, if I had but taken it!*"

In the latter part of 1921 I sent out a list of the following securities to four or five leading firms of stockbrokers and four financial editor friends of mine, asking for their views, in order that I might check them against each other. On occasions this helps to classify one's views; on others it simply leads to confusion. Although "tip" is more or less a colloquialism for unsolicited advice, it is permissible to ask for views on certain securities.

"What are your views?" I wrote on these securities. "What do you see?"

The list is as follows, the then current prices being bracketed—

Anglo-Java Rubber	(Price then 2/9)
Caltex Oil	(5/–)
Dunlops .	(10/6)
Courtaulds	(39/3)
Cook, Son & Co.	(16/6)
Aerated Bread Co.	(28/6)
Perak Rubber .	(2/9)
German Bonds 3%	(£6)
German Bonds 4%	(£6⅛)
Kepitigala Rubber	(7/–) (then 10/– share)
Malayan Tin Dredging	
French and Rumanian Currencies	(26/–)

One of the big firm of stockbrokers "tipped" as follows—

1. Caltex Oil. 5s.

This company has made some sensational strikes of oil, but in the majority of cases the wells have gone quickly to salt water. The shares must be considered highly speculative.

2. Anglo-Java Rubber. 2s. 9d.

The cash position as shown in the last accounts was very satisfactory, and it is anticipated that the report, which is due shortly, will show the company's position in this respect to be quite good still. We do not look for any dividend, but for a lock-up the shares should be quite a good purchase.

3. Dunlop. 10s. 6d.

One cannot look for any dividends for a number of years, but there is considerable financial interest which takes a hand in the shares from time to time, and from a speculative point of view they might be worth buying.

4. Courtaulds. 39s. 3d.

This company in last year's accounts wrote down all their forward contracts, and the next report is likely to be a good one, in spite of general industrial conditions. There has been considerable buying from America, which is supposed to be in connection with their interest in Viscose, Ltd. I think the shares should be quite a good purchase.

5. Cook, Son & Co. 16s. 6d.

This company was started on top of the "boom," and I do not think the shares are low enough to be considered worth buying.

6. Aerated Bread Company. 28s. 6d.

The last dividend was 17½ per cent, and from what I hear the shares should be well worth buying.

7. Perak Rubber. 2s. 9d.

The report is due shortly, and it is anticipated that the cash position shown will be a fair one. For a lock-up they should be a sound purchase.

8. German Bonds, 3 Per Cent. £6.
German Bonds, 4 Per Cent. £6⅛.

We think these bonds are as good a lock-up as one can find.

9. City of London Marine Insurance.

There are no dealings in these shares now, as fusions into the City Equitable Association Ltd., is going through. The prospects of the new company are very good.

10. Kepitigala Rubber. 7s.

We should prefer Anglo-Java or Peraks to these.

One of my financial editor friends was well near the mark. He was brief and to the point—but, as you shall see, near the bull. Caltex he marked as "speculative and any profit should be taken."

A.B.C. he marked as good; German bonds, French francs and Rumanian leis he bracketed as "a pure gamble."

Anglo-Java and Perak rubber he thought were "to be locked up till 1923."

Cooks and Dunlops he wouldn't commit himself about beyond saying "dependent on state of trade."

Courtaulds: "Good for future."

He was further off the mark with Malayan Tin Dredging, for he marked it "speculative," which it might have been, but it turned out to be a mighty good speculation, for the price rose considerably higher.

He added, on his own account, "Consolidated Tea and Lands are worth a speculation, *but nothing is certain in the world*!"

Another leading firm thought it was "doubtful whether much money will be made out of oil on the 'bull tack' for some time to come"—which was perfectly true.

Afraid of Rubber!

But they thought that German bonds were "a fairly safe lock-up, and that Rumanian currency should be worth buying. French francs are not likely to improve so long as there is so much unrest current in Poland and other directions."

As regards rubber shares, "Only those rubber shares should be bought which are in a strong financial position, and we are more disposed to buy United Serdangs or Malayalam new shares—both of which have raised money in recent times.

"We do not see much speculative development in

Cook, Son & Co. and Dunlop shares at the present time.

"The Malayalam company, mentioned amongst the rubbers, is also a grower of tea, and should be able to do much better this year than last.

"You are aware that exchange is much more favourable to all these Eastern companies, and the losses made last year were largely caused by exchange.

"Rio Tintos may be cheap at present, but the outlook for copper is not at all certain, and we are doubtful if the Tinto company can produce at a profit at present prices."

These are interesting views, deserving of record as indicating the current of Stock Exchange opinion soon after the war.

More Reliable than Tips.

First-class, intimate and direct information is the best means of making money. It is ever so much easier than guessing how the political situation may turn out!

Two other coups I brought off were the result of such information—plus a certain readiness to take the long chances—and were as follows—

In 1920 (?) I heard that certain Mexican Public Utility stock which had fallen from 73 to just over 30 were likely to go better. Nobody believed in Mexico, but the information I received was that arrears of interest were to be paid, which would obviously make them very much better. There were certain risks—

(*a*) That the scheme would break down as other such schemes—particularly in Mexico—had.

(*b*) That the information was wrong.

(*c*) That one of Mexico's periodical revolutions would come about.

(*d*) That even with the possibility of these arrears being paid, speculators, always frightened and shy where Mexican finance was concerned, would "keep off," and so depress the price.

A Coup.

One had to act promptly. I decided to chance it. So I instructed four different brokers to buy for me all the Mexican Utility stock they could lay their hands on! A big order—but actually amounting to a few thousand pounds for an endless quantity of dollar stock.

I felt a momentary spasm of fear when I met my friend who had given me the information, and he said—"Don't be too rash with that tip. It might not come off."

But I was reassured the next day when one of my brokers rang me up and said—"There happens to be something going on in the Mexican stock; there are few sellers about."

After that I redoubled my energy in finding stock . . . . By the end of the year they had jumped to $62\frac{5}{8}$, and next year to 80!—this apart from considerable arrears of interest which were paid in cash!

That *was* a coup.

Nine-tenths Fail.

Another tip that happened to be right was to buy Brazil Tractions, which stood at $25\frac{1}{2}$. I bought at 26 and sold at $55\frac{1}{2}$.

All of which serves to show that sometimes tips come off, but that big capital and bigger nerve are needed to try them all!

Nine out of ten fail. The majority have little or no substance to support them.

There has been no more striking lesson in the futility of accepting tips without knowing anything about the company concerned, than in the case of British Controlled. For many months the tip to *buy* was sedulously spread in the City, and with unusual persistency in the West End. They were boosted by a bucket shop whose managing director afterwards told me he had no faith in the men running the concern!

From a few shillings the shares were lifted to a premium. Nobody knew exactly what the big schemes were about which sensational stories were circulated; nobody seemed to care about those responsible for the administration of the company. All they did was to buy the shares at any price, and wait for fat dividends.

People Who Were Hit.

Some £9,000,000 had been raised, which were to bring in £90,000,000 in profits! Instead, when the *dénouement* came—as it always comes—it was found that £6,000,000, or two-thirds of the capital, had been lost. Concessions upon which big hopes were founded proved valueless, money had been squandered right and left . . . The shares slumped to 4s.!

"How came I to accept that tip?" thousands of crestfallen people were asking themselves. They should have asked that question *before* buying the shares, as I

recommend you to do in cases of all tips that are offered to you.

Keep Your Shirt!

Let me give you three other striking instances which will indicate to you that tips received even through the very best sources are liable to go astray, and that therefore, the impulse to " put your shirt on it " *must* be checked.

A friend of mine, with whom I go a-sailing sometimes, is the son of a millionaire banker. Some time ago a big issue was made through the millionaire's bank, of which, I may say, he is the head. The whole details of the scheme had been worked out by my friend's father, who was taking a personal interest in the issue. His son asked whether he should apply for some shares, and his father, usually a reticent man, caught in a good mood, replied: " Certainly ! "

That was enough for my friend. He not only applied for a big issue, but put his fiancée in—*and lost* £850 *as a result.*

When I was in Paris I dined with the First Secretary to a foreign Embassy, the name of which wild horses would not drag from me. Later on in the evening the Ambassador joined us, and we spent a merry evening together. Although at the time I had no thoughts of the Stock Exchange, a remark dropped by my friend led me to ask him whether a certain financial deal which was on the tapis was going through all right. If it were, there was a very obvious chance of making a good deal of money.

" One never knows in the world of finance," replied

the beaming Ambassador, " but you will not do any harm if you buy the shares."

That Inevitable Hitch.

Ten days later the shares certainly did jump—before the news was out. I waited, and the next day they had not only slumped back to the price I had paid for them, but fell lower still. In the end my evening's entertainment had cost me a few hundred pounds.

Now the Ambassador's tip, as it turned out, was perfectly correct *at the time he gave it*, but an eleventh hour hitch, which neither he nor anybody else could foretell, had broken down all prospects of a settlement. I was told afterwards that some very big knowing men within the circle of the Embassy had also lost money.

A Café Tip.

I was sitting in the little café opposite the Stock Exchange in Throgmorton Street, sipping coffee in company with two brokers, when an excited looking individual (evidently a member) came in with an elderly man.

" Have you a pen ? " he exclaimed anxiously, waving a transfer.

My two friends laughed at him.

" Have an inkwell ! " they said.

Apparently they knew the man and didn't care very much about him.

Always ready to act the Good Samaritan I immediately offered my fountain pen.

" Don't go far away with it ! " I said, joining in the chaff.

He appeared grateful for the loan, hurriedly got his companion to sign the transfers, and returned the pen.

"Buy yourself a few Hendersons . . ." he said earnestly, as he handed it back.

I looked for confirmation at my broker friends, but they openly scoffed. Apparently they knew about the man, and were not prepared to take any tips from him. Yet somehow I could not conceive such deliberate evil being returned for good, and so, "just for fun" and against my broker's advice, I did buy "a few Hendersons."

I had to pay 4s. 4½d., and such is the reward of kindness that as I write a few days later they are called 3s. 9d. to 4s.

P.S.—No moral adorns this little episode—except that it may prove to you that the advice I have been giving you, and which in this instance I myself did not take, holds good: examine facts first before heeding tips.

Diverse Views.

Another tip I received was upset by the sudden change in the French franc, about which I have written in an earlier part of the book. A friend of mine on whose judgment I can rely stopped me in Throgmorton Avenue, and said that he had been interested in my wireless talk. Now wireless has nothing whatever to do with the Stock Exchange, but the shrewd speculator is always on the look out for an opening of this sort. Knowing his intimate association with some of the big mining companies, I merely replied, "Did you? So glad. *What do you know?*"

"Ah!" he replied casually. "Buy yourself a few De Beers and carry them over for an account or two."

De Beers then stood at about 14. Unfortunately for me, I tried to check the information with my broker, and his view was that he saw "nothing much to go for." And so since these two views cancelled each other, and I had other things to concern me, I did not heed the tip. From that day De Beers began to move from 14 to close on 21, a rise of 50 per cent, and it looked like going further when the franc began its spectacular descent (which is really a rise) from 200 down to 139.

The Best Tip of All.

To sum up—

Be cautious of all tips.

Those which are right have very often been discounted in advance, or the news has reached you too late.

Other tips are a year or so too premature. (Bauchi Pref., Chartered, Peru Pref., and quite a score of other examples which I was told to buy from a good source over a year before they doubled themselves.)

Finally, the best tip in the long run is "Safety First."

Find out the record of a company. *Get to know the facts and figures.*

An ever-increasing dividend is the surest tip of all.

CHAPTER XIV

PITY THE POOR BROKER!
THE BROKER'S POINT OF VIEW

I HOPE that something of what I have already written may help the broker to understand the point of view of the client.

The observations I now propose to offer may, on the other hand, help the client to understand the point of view of the broker.

He is not always the scheming demon who buys for his client at top prices and sells at lowest. Neither is he, on these occasions, in league with that mysterious hidden fiend—the jobber.

In searching for the miscreants who are gloating over your losses, you would have to look a good deal farther than the unpretentious portals of Throgmorton Street. Alas! your innumerable "Jimmy o'Goblins" are scattered to the four corners of the earth. Plain Misters and gilded Peers, Monsieurs, Herrs, Strong Silent Men and, judging by some of the transfers, even Sheiks, all, all are making merry on the fruits of your industry. Let us bear our losses like men, and say we hope they enjoy them!

Government's Biggest Bites.

It is perfectly true that somebody must have won what you have lost, but it is a curious fact that you never seem to meet the lucky man. That is why newcomers to the Stock Exchange are inclined to assume

that brokers and jobbers and company directors reap all the spoils. It is not actually so. All they manage to do is to get just a taste of the gilt off the gingerbread before they pass it on!

It is the Government that gets the biggest bite of all, because it runs no risks, and steadily consumes vast sums in the form of contract and transfer stamps.

There is an old French saying at Monte Carlo, where the gaming rooms are largely owned by the Blanc family, that Red wins sometimes, and Black wins sometimes, but White (Blanc) wins all the time. In other words, the punters who back red or black win from each other, but the Bank, with its deadly zero to help it, runs no risk, and wins something on every turn of the wheel.

So it is with the Government and its stamp charges. Every transaction, no matter whether it be a winning or a losing one, brings in its fixed percentage to the revenue.

Stamp Charges Too High.

These stamp charges are absurdly high, and need to be revised—that is to say, if the Stock Exchange hopes to increase its business and the Government its revenue.

Brokers have not been doing too well since the war, and that for various reasons besides the dearth of money. The client, handicapped by the big Government charges, and, at one time, having to pay two big commissions in one account, had fought shy of engaging himself in too many transactions, because he knew that he had not a fair chance of making a profit. That meant that there has been less work for the brokers,

However, things are looking up, the speculative spirit is abroad, and brokers are wearing top-hats again.

Wide Prices.

Jobbers, too, sometimes help to limit business by making wide prices. Then they are the despair not so much of the client as of the broker. The client can insist on a narrow price or refuse to deal, as I have done on innumerable occasions; but if you are unable to obtain a satisfactory dealing price, blame the jobber. He has a broad back. Besides, you rarely meet him; so he doesn't mind.

I have insisted that it is usually a mistake to instruct your broker to deal "at best"—that is, at the best price obtainable—because if you do you play into the hands of that type of jobber who likes to make the best of both worlds by quoting a wide price.

Don't blame the broker for paying the jobber's price if such has been your instructions to him. Of course, jobbers are out to do business, and the majority are ready to make a fair dealing price. But if the jobber is prepared to buy only at a low price, and is ready to sell only at a high price, what is the poor broker to do? For instance, the jobber may make a price of 14–15, which means he is ready to take (or buy) the stock at 14, whereas he will not sell it for less than 15.

The Art of Bargaining.

If your broker has been instructed to buy for you or to sell for you "at best," he is quite entitled to accept the jobber's wide price.

On the other hand, if you have wisely limited your broker as regards price—telling him, for example, to buy at $14\frac{1}{2}$—he has two courses open to him.

He may challenge the jobber at $14\frac{1}{2}$—*that is to say*, ask whether the jobber is prepared to "deal" at that price. Should the jobber reply: "I will buy at that price," the broker is not bound to deal. He may merely say: "No, I am a buyer," in which case the jobber, knowing now that the stock is wanted, may quote a higher price.

Let me give an example of this. When French four per cent Rentes—generally known as French Fours—were as low as $13\frac{7}{8}$ to $14\frac{1}{8}$, I instructed my broker to get a closer price. I said I was prepared to buy £10,000 at 14. He said that he could not get them at that price. So I told him to challenge at 14.

At 14 the jobber was a buyer! So, of course, I was unable to deal. But I had learnt how the market actually stood. On the other hand, the jobber, too, knew that you wished to buy and, quite naturally, moved the price up against me. A perfectly legitimate move.

"Tops and Bottoms."

The effect of this was that instead of being able to buyat 14, I should have to pay $14\frac{1}{8}$, and possibly $14\frac{1}{4}$! I was not prepared to give that figure, but had I, merely from the day's quotations, decided to buy, and told my broker to deal for me "at best," he would undoubtedly have closed with an offer of this kind, and I should have found myself landed with a parcel of French Fours at a much higher figure than I meant to give.

The market fluctuated a little during the next week, and again I asked for a close price. In this instance the jobber was a seller at a rather lower figure than the market quotations would have led one to expect, and my broker was able to buy within the limit I had set. Again, if I had told him to buy "at best" he would, of course, have purchased at a higher figure.

Clients are human enough to hope and very often foolish enough to expect—that their brokers will sell for them at top prices and buy for them at lowest prices. On 'Change they call this "Playing at tops and bottoms."

As a matter of fact no man in all the amazing history of the Stock Exchange ever succeeded in this game. Yet, judging by the abuse everybody—myself included—showers upon the unhappy broker when he sells stock for us at, say, 14½, whereas the markings in the official lists and in the newspapers is, say, 15, one would think that there was actual collusion between the broker and the jobber.

No Collusion !

In actual fact there is nothing of the kind, and the variations in prices are inevitable, as I have just shown.

Whether the jobber ought to be allowed to live and wax fat is quite another question, and a very vexed one. One might just as well ask whether the people who go in for horse-racing are not too soft and charitable in subscribing daily to the bookmakers' palatial homes.

It is a melancholy fact, which the melancholy broker duly recognizes, that by the time the wretched Government (and are they not all wretched governments ?)

the jubilant jobber, and the quick profit merchant have each taken their nibble at the apple of investment, there isn't a great deal left for the man who brings the business to the House.

That is why it would have paid every one of us to put our money into War Loan, and to have kept it there until more normal times—till fees were reduced, and one commission only was charged for at least two accounts, a practice which is now adopted at the broker's discretion.

The Broker's Lot.

That is what we speculators ought to have done, but, of course, we hadn't the heart to lock up our money and let the brokers starve. They have children, they have wives, and we must spare their lives. Even if it ruins us.

It will be seen from the foregoing that, even in simple transactions of buying and selling, the broker's lot is not altogether a happy one, but the real reason why so many brokers become grey-headed is that their clients do not trouble to understand the rules and regulations of the Stock Exchange.

Most of these rules—such, for instance, as those which relate to Carrying Over, Account Days, and Settling Days—are so simple and so obvious that one would expect everybody at all interested in stocks and shares to study them, to understand them, and to act upon them.

But they don't. Every account day is a constant repetition of queries and misunderstandings.

"I wanted you to sell for cash," or "I wanted you

to buy for next account and not this," are remarks of the type that the harassed broker has grown to expect.

Read Your Newspapers!

All these mistakes and misunderstandings can be avoided quite easily. The *Financial Times* and the *Financial News*, and the majority of the daily newspapers as well, all give carrying-over dates, account days, and settling days.

Before carrying-over days in each account you must instruct your broker early, letting him know your exact intentions.

If you have bought stock, now is the time to say if you intend to "take it up"—that is to say, pay for it—in two day's time, which is account day.

If you are an investor who has bought stock to keep for a time then you need not worry. Your account will duly reach you, and you will *immediately send a cheque in settlement*, so that your remittance reaches your broker on settling day.

Sell Early.

On the other hand, if you have bought for a quick profit (or loss), and do not intend to take up the stock or shares, then it is far better to sell *before* carrying over day. The reason for this is that on carrying over day the jobbers "read you a seller"—that is, they presume you want to sell, because they know that the weakness of most clients is to wait until the last moment before getting out for cash. They therefore squeeze you, and quote you a low price.

It is just here that the psychology I have mentioned

earlier in the book plays its part in the transactions between broker and jobber. Yet never will the efficient broker betray the slightest indication of his real intentions, and the cute jobber, like the good player of poker or bridge, tries "to read" the broker, and make his price accordingly.

Sometimes smartness, in the worst sense, may have a big influence upon a deal. I know a few brokers whom the cutest jobbers would find it difficult to beat. Usually, however, it becomes a plain, straightforward deal, governed by the inexorable law of supply and demand.

If everybody rushes in to buy, the stock is moved up against you; if, on the other hand, everybody is selling, the stock is moved down.

The Cautious Jobber.

The jobber always tries to protect himself. His is the risk, but it is not a very serious one because, in the great majority of cases, there are always buyers as well as sellers, and he is able to "make a turn"—that is, a margin of profit—on both transactions.

Still jobbers will tell you how they have occasionally been landed with stuff they can't sell. Spare your tears, however. There are strange ways and means, known only to the Secret Society of Jobbers, for preventing such unholy catastrophes.

You will very often find that a jobber will not make a price. "There are no buyers about," or "There are no sellers," are the excuses often conveyed to you through your broker. Or the jobber can't be found. He is at lunch—from eleven to four!

In other words, if there seems to be anything fishy or doubtful about, the market suddenly dries up. Jobbers refuse to deal until the position clarifies itself. Some shares have what is called a " shop " to support them. When the support is withdrawn, the jobber quickly acts on the defensive. He either widens his price to a prohibitive degree or tells you bluntly that he is not a buyer . . . .

Spare Your Tears !

I have listened with tears in my eyes to many a sad story from our beneficent jobbers—but they have been tears of laughter, for whoever heard of a jobber drawing the dole ?

Know, then, that when difficulties in dealings arise, the blame is rarely your broker's, unless he is shirking his business, which I have never known a broker who has an eye to business and commission likely to do.

A broker has enough trouble when he goes into the House to deal. Don't add to those troubles by expecting the impossible of him.

CHAPTER XV

HINTS OF ALL SORTS

1. Ex-dividend.

COMMON cause of misunderstanding between client and broker is in regard to stocks or shares which are ex-dividend. Such disputes, let me say at once, are usually the fault of the client. So far as the broker and the facts themselves are concerned, there can be no possible cause of misunderstandings. Of course, if a client asks a broker before dealing whether the stock or share he wishes to buy is cum (plus) or ex (exclusive of) dividend, it is his business to find out, and if he wrongly informs his client you will find, in most cases, he will offer to make good his mistake. But such a mistake can rarely happen. Shares automatically become ex-dividend on a given date, and are marked so on the official list: X.D.

Some are so marked on the date of declaration; others when the dividend is actually paid, and others again on the opening of the new account following.

Easy to Clear Up.

Each class of share has its rule, and the date is officially written down, and is not dependent on the broker or anybody else. It is known beforehand that on such and such a date these shares will become ex-dividend. If you sell *before* that date you sell cum (with) dividend; if you sell *after* that date you sell

ex-dividend. The dividend does not belong to you, although it is quite likely that it will still be sent to you, there not being sufficient time for the company to make the necessary changes.

The only time when the question is open is within *a few hours* of the shares being quoted ex-dividend. If you deal then it should be understood clearly first of all whether you wish to deal ex or cum.

In any case, a dispute is childish, because the amount of the dividend is at once deducted from the share, *so that you know very well how you sold.*

Of course, a price may soon recover its dividend, but actually the whole affair offers so small a chance of misunderstanding that I wonder why so many brokers have to explain the matter again and again to mystified clients, who not only want the higher price but the dividend as well!

You Must Pay Back.

Genuine misunderstandings do arise, of course, especially when you are dealing in a large number of securities. For instance, I sold 500 Knights Gold Shares, thinking that the dividend—a fat one at that time—was mine. The dividend duly arrived, some £70, and I spent it—well, at the pictures. Some long time afterwards there was a cheery little note from my brokers saying—"You owe us £70."

"Call again!" I replied. "The money's mine!"

And then they told me the sad story. *It had never occurred to them either at the time* but the circumstances were excusable, for although the actual payment of the South African dividend was some way off, the shares

had been quoted *ex*. A formal glance at a reference book, and back went the £70 to the broker, who in turn, credited the rightful owner with the amount. It is amusing to try and imagine what was happening in the meantime to the new holder who was naturally on the look out for the dividend (which he didn't deserve, did he ?), and finding it not forthcoming, rang up his brokers, who rang up my brokers, who rang me up ! There was, of course, no question of dispute about it at all. Thanks to the regulations of the Stock Exchange, it was all down in black and white.

I fear that some clients cannot overcome that innate reluctance to send back cheques that have been made out to them, sent to them, and which they have in the meantime cashed. If would be far better I know if one's hopes were not raised in this fashion, and if the companies concerned could hold back the cheques and make them out afresh to the new holder. But this isn't feasible. For this reason—

Some of the big companies' transfer books are closed some time before the dividend is paid, so that although you may have sold your shares, the transfer of the shares into the name of the new holder is held up. Consequently, the dividend is made out to you, although, in fact, it does not belong to you.

Let me add that in such cases where a dividend is so received, it should be returned *not to the company* but, after you have endorsed the warrant, *to your broker*, who will duly credit the rightful owner with the amount.

Remember, it works just the same the other way. If you have bought shares *cum* dividend, you will still

claim it, even though it is sent to the man from whom you bought the shares.

2. Bonuses and—Bonuses.

Things are not always what they seem—especially on 'Change. The announcement of a bonus by a company is usually heralded with joy by the shareholder. To him there can be but one meaning to the word and one significance—profits, prosperity—and more profits. He rushes in on the news and buys more. Why not? Doesn't it mean more bonuses—more increased wealth?

Yet wise shareholders will pause and examine the terms of such bonuses before getting married on the anticipated proceeds, or taking the family to the Lido.

Should there be a cash bonus, well and good. This, surely, means that the reserves and profits of the company permit of such distribution. Remember also, however, what I have repeated elsewhere in this little work, that the news of such a bonus in nine cases out of ten has been duly discounted. Companies do not, as a rule, contemplate a decision and make an announcement simultaneously! It becomes known long before the possibilities of a cash distribution take official shape, that the company has more money than it knows what to do with, and that perhaps something in the nature of a bonus may be distributed when the dividend is announced some months later. Discerning people and friends in the know buy quietly, so that before the news reaches the Stock Exchange, the Press, and you, the shares are high enough. That is not the time for *you* to jump in and buy them!

When to Get Out.

One could give scores of such instances.

As an example, Assam tea, which actually went back in price after bonus had been declared.

If anything, one should get out immediately on announcements of a favourable character! That is what the professional speculator does.

The sort of bonus which should give the shareholders pause is the share bonus. It is announced that a "bonus" of one share will be issued free to every holder of three shares. Or one share at par will be issued to holders of every two shares. Since the market price of the shares may be standing at 25s. or 30s. the new issue is regarded in the nature of a bonus.

But is it?

In all these instances of "bonus" shares you have the obvious fact—all these things become very obvious *after* you have been bitten several times—I say it becomes clear that the *share capital is being increased*, and that in consequence dividends may suffer. Take, for instance, the crude example: on a capital of £10,000 a company makes £1,000 profit, and pays a 10 per cent dividend, a new issue of 5,000 shares *may most likely cut down subsequent rates of dividend*, unless the profits increase in proportion to the new issue. There may be good reasons, as there sometimes are, for a company to increase its capital. It may be extending its activities. It may have developed rapidly, or it may really need the money for possible emergency.

Not All Bull Points.

The Royal Dutch, for instance, made a bonus issue

of shares, and when the time came round for the declaration of a new dividend, the market price of shares fell from 35 to around 30, for fear that with the new issue of shares the company might not be able to maintain the same rate of dividend.

Remember, then, all bonuses are not unquestioned bull points.

There are bonuses—and bonuses!

3. Snags.

The reader who wishes to deal extensively in stocks and shares is bound to make a close study of conditions. Otherwise he may pay dearly for his inattention.

Unless one has a friend in court, and a friend who is not only reliable in knowledge and judgment, but one who is prepared to pass on the good word *before* a world of relations and friends have had it passed on to them—unless, as I say, you are in this particularly fortunate position, how are you to judge whether the share is worth taking up or not?

First of all, there is the record of the company, which can be obtained from Somerset House and from financial books of reference. Then a knowledge of the market is necessary, or the company's prospects. To take an elementary example: the intelligent student will gather that the opening of the British Empire Exhibition meant more passengers for the railways concerned, and therefore more profits. He will watch for the *early signs* of such a move, and not wait till the possibilities are digested by every Tom, Dick, or Harry. He will watch the price of certain commodities, and endeavour to find out what the tendency is. Far too

many investors are exclusively concerned with the price of shares, and altogether ignore the vital importance of commodity prices.

Cuts in Commodity Prices.

Cuts in the price of crude oil are not so definitely a criterion as they were in the past. Nevertheless, such a cut is not going to *help the price* of oil shares. On the other hand, if you are going to wait till a cut actually takes place you will find that however smart you are in getting into the market or giving your brokers orders to sell your shares, *the market has already anticipated your move*, and has put the prices against you overnight—or the first thing in the morning.

If you are keen enough, study the tendency of the market in the oil commodity *before* the cut takes place. Study the production figures—compare them.

Figures have a way of repeating themselves at certain times of the year.

Then again if the number of motor-cars increases, it is obvious that the consumption of petrol will increase, and naturally that is a bull point. But sound and correct judgment is a rare gift. Who would imagine, for instance, that gramophones would not only live but thrive in the era of wireless ? I certainly didn't. It would be pardonable to think that, in any case, such a powerful competitor as wireless would have had adverse influence on the gramophone industry ; but actually we find it had just the reverse effect. The Columbia Gramophone, for instance, when wireless was at its best, showed a remarkable expansion in its earnings. It doubled its profits in sixteen months, and

the shareholders received a big bonus. Whether this astonishing state of affairs has continued the reader will know, but at the time of writing it certainly shows how almost impossible it was to judge the market in this connection.

Rubber Example.

Take the price of rubber, too. The majority of rubber shares remained at the same level when the price of the commodity had doubled itself! And it was only when a move started later that people—late as usual—scrambled to get in.

The fall in the price of the commodity had been overdone, but obviously if a rubber share was able to pay a dividend of, say, 10 per cent when the price of a commodity was a shilling, it stood to reason that with a price of 3s. the companies should be doubling or trebling their dividends.

I don't wish to say more about the technical conditions, for I am sure the reader by now has this point well in mind! but he must not overlook the fact that *sentiment as well as technical conditions have a lot to do with the movements in the price of a share.*

It would seem, therefore, that the most intelligent investor may stand a *little* chance of anticipating the course of the markets, and if he develops his instinct and judgment in this respect he may go well on the right road to fortune.

Intelligence!

An intelligent understanding! That's the need. For instance, it is obvious that a big influx of American

and other visitors to London must benefit the hotels. Just before London settled down to social life again after the war, some of the hotel shares stood at a low level; then came the great return of visitors from abroad, and those who could read these signs aright promptly bought hotel shares. The result was seen the following year, when prices were 50, 60, and 75 per cent up.

These hints, I hope, will give pause to the amateur investor who has been accustomed to "go blind" in making his investments by leaving the responsibility of selecting shares altogether to his broker.

Alas and alack, as he will take the first opportunity of telling you himself, the broker is very often without any special source of information. Brokers, too, have told me *that they are too close to things to judge from the best perspective.* This is so. I found that my judgment was very much fresher and unhampered when I gave up for a period my daily visits to Throgmorton Street.

Use Your Brains!

A student of foreign affairs would have a fair idea about the respective values of foreign bonds. I have given the instance of Mexico, where the periodical unrests, while making that country a good subject for cinematograph purposes, make it a less satisfactory venture for the investor.

There are always portents which the smart operator will see and take advantage of in advance of the rest.

Those who bought Home Rails *before* the terms of the last coal strike settlement were drawn up made money. I did. And those who knew that the natural reaction

would take place *after* the strike was at an end, sold just before!

Luck plays far too big a part in the majority of operations. Don't depend on it. *Use your brains!*

4. Flair.

An old-established firm of inside brokers once paid me the compliment—and incidentally a fee of 250 guineas—for writing a survey of the markets with my view of forthcoming prospects which they sent to their clients.

Some of those clients sent me their lists of securities with a view to having them overhauled. To proffer advice on such matters is a risky and often thankless task. Yet I found it fairly easy to tell the average investor whether he was (1) on a fairly safe investment, (2) whether the company whose shares he held had a bad record, and (3) whether he had too great a proportion of speculative stock.

I remember some of the strange requests that were made to me by these clients.

"Shall I sell War Loan in order to buy Eldorado Mine?

You would hardly credit the stupidity of some people impatient to make money in a hurry. A steady, certain income in the best security in the world isn't good enough. They must, perforce, risk the whole source of their income on a pure gamble.

Dangerous Advisers.

It is a totally different matter if a man deliberately chooses, as I often did, to speculate rather than invest.

He must be prepared to lose all his money, and if he can't afford it, the more fool he to take the risk. The wise man or woman, however, prefers not to gamble or speculate. He or she, as a rule, wants a stock or share which is three-quarters safe and a quarter with capital appreciation possibilities.

The fools of the financial world, and they are many, are those who are tempted by their own foolhardiness, or by the deliberate wickedness of others, to put their all on purely gambling counters. While I have not said that these dangerous advisers are found exclusively among outside brokers, I do say that it is time the police stepped in and put an end to the activities of many so-called brokers who batten on the ignorant.

5. The Helpless Shareholder.

I am seriously thinking of inaugurating a Shareholders' Protection Association—which brokers themselves might join. That such a body is urgently needed all who have attended shareholders' meetings will agree. The majority of shareholders are mere pawns in the hands of directors. Resolutions concerning the adoption of reports and accounts are regarded as mere formalities, and are often moved and seconded by friends put up by the board. The average shareholder is usually ignorant of his privileges and rights.

He is usually too timid to speak—bores invariably are alone among genuine shareholders who take up the time of the meeting—or as I have heard again and again cranks with personal grievances against one or other of the directors. What is really needed is an association where shareholders who have genuine cause for

dissatisfaction may meet together under a qualified chairman *before the general meeting*, and decide upon concerted action, if necessary, after legal advice.

Meet Before the Meeting!

At meetings which I have attended—such for instance as those of the Sheba Gold Mining Co., and Prince's Hall—brokers who attended on behalf of big holders said nothing publicly ("What's the use?" they said to me afterwards), but privately made many bitter comments. These may or may not have been justified, but there certainly was considerable dissatisfaction among shareholders, who had no guidance in the very unsatisfactory state of affairs that had been put before them. The time to examine these things is surely *before* a general meeting. In the course of a good many meetings I have attended—many of which were fiascos from the point of view of shareholders—I only came across one instance where a shareholder made a stand against an unpopular directorate. That was in the case of the Eileen Alannah Mining Co. He happened to be a large holder, and therefore went to much trouble and expense to probe the situation. By circulating the shareholders it was fairly easy to obtain many proxies, for the situation could hardly have been worse—and ultimately the board was turned out—although it is only fair to add that the new board made no *immediate* change for the better.

Some Pointers.

A Phoenix Oil Company meeting was attended by a large body of commercial men, who were out for

explanations why no dividend had been forthcoming. But a clever speech by the chairman, and not a dissenting voice was heard!

An association of shareholders might have obtained from Sir Edgar Mackay fuller reasons for the unfortunate position of Crosses and Winkworth, and for his resignation from the board.

Such a body would have protested against a loan being accorded to Germany so long as she refused to indemnify the holders of her pre-war bonds, and would have taken energetic action long before it was too late.

Concerted action might also have been taken against some of the rubber companies, most of whose profits were eaten up with expenses in London and directors' fees.

Yes, on the whole, I think a Shareholders' Protection Association is very necessary.

* * *

And in this connection I would like to quote an interesting note on the psychology of shareholders which appeared in *The Times*—

Schemes of reconstruction are often misunderstood by shareholders. The silent and often uninformed security-holder is worthy of special consideration, and we venture to suggest to boards of directors that they should keep him especially in mind when presenting schemes of this kind A little of the human touch in an expression of regret that the scheme has to be brought forward at all is not a bad thing The fact that the scheme, or something having the same main effect, is inevitable, should be made clear in elementary language, and in some cases should undoubtedly be illustrated by a picture of the alternative—what will occur if the scheme does not go through. Holders of the kind that we have in mind often fail to appreciate in its true bearing the fact that the large holders of the security have been consulted in advance, and are often, therefore, parties in the actual formulation of the scheme. This fact may appropriately be gone into in some detail and with

some emphasis at the meeting. Such an explanation will often remove a feeling of soreness on the part of the small holder who otherwise may have, quite erroneously, a feeling that he is being coerced by the big holder, whose interest, in some mysterious way, is not the same as his own

6. When Brokers are Liable.

I have often been asked when brokers are liable. It is an interesting point. Considering that the bulk of business on the Stock Exchange is done viva voce or—in the House—by the nod of the head or a lifted finger, it is simply amazing how few disputes there are. Nowadays, when the telephone plays a prominent part, it is especially creditable that so few mistakes are made.

The 'phone as a medium between client and broker is unsurpassed. It has its disadvantages, even though you may pronounce five as fife! Luckily a high sense of honour is maintained, not only between broker and jobber, but between broker and client. The unscrupulous, taking advantage of all the handicaps offered by the hidden, and often inarticulate, telephone, appears more in the pages of romance than in actual affairs.

Mistakes Rare.

Probably there are no more complicated and seemingly unbusiness-like dealings in which such huge sums hourly change hands in the whole of Business England than there are in Throgmorton Street. Yet mistakes are almost unknown. Ask any broker, and he will find it difficult to remember any occasion when even the telephone was responsible for a misunderstanding. In the whole course of my dealings I have never heard of such an error being made.

As a matter of interest, I recall a misunderstanding of another kind, and I only do so in order to offer a little interesting discussion on how far a client or broker is responsible. When Rumanian Consolidated Oilfields, now incorporated (*nolens volens* so far as my holding was concerned) in Phoenix Oil, the shares, on the usual rumours, rose to 29s. 6d.

I therefore instructed my broker to sell my entire holdings. He did not misunderstand my order, but hearing from a source on which he relied that the shares were going much better he wired me instead of selling. "Do not advise selling Romans. Writing." In a letter which I received next morning he explained why he did not sell. "If, however, you still want to sell, let me know," he added.

By that time, however, the shares reacted, and I waited. They finally went below 20s.

Strictly speaking, my broker was responsible. Had I wired back—"Sell as instructed" I could have held him responsible for the difference between the price of the shares at which he could have sold on receipt of my instructions.

It is a difficult point. The broker undoubtedly felt he was acting in my interest. How far is he entitled to do so? He did his best. I let it go at that.

7. Bearer Shares.

Why are shares not *all* made out "to bearer" instead of being registered as they are to-day?

There is no doubt that a tremendous amount of work would be saved if all shares were made to bearer. No transfers, no fees, and no stamp duty to new holders!

But the real reason is that *there is more security in registered stock.* For one thing, bearer certificates are liable to be lost, and for another it would be easy to forge such securities, since there would be no check as there is in the case of registered stock.

8. What is a "Yield"?

By yield is not meant dividend pure and simple. Yield actually is a different matter altogether. A company may pay a dividend of 40 per cent on its £1 shares. But if the £1 share is standing in the market at £4 then the yield is obviously only 10 per cent.

There are thousands of cute investors directly or indirectly connected with most business concerns, and they would soon buy up shares on an increased dividend that was justified by genuine profits.

When a share which is giving a big yield is left severely alone by these knowing people, *you may be perfectly sure that there is something wrong behind the scenes*, although the snag may never become apparent to you until the company suddenly ceases business!

In all such cases *leave the share with big yields severely alone.*

9. Stagging.

A popular, but not always certain, way of making a little money is to become a stag, which means that when a new company issues shares to the public you will make application for a number of them, in the hopes of being able to make a quick profit!

In this way:

A new company makes an issue of shares to the

public at par. The prospects are known to be so bright that it is fully expected that as soon as the shares are quoted on the Stock Exchange they will go to a premium.

Therefore, your intention, as a stag, is to apply for a number of these shares, sending a cheque for only the part of the full amount asked for as a first call.

If the share is as good as you believe it to be, it will probably be over-subscribed, so that you may be allotted only part of the number for which you applied.

However, supposing you applied for a thousand shares, and had to send 2s. 6d. per share with your application. You will have sent a cheque for £125, and since you have only been allotted 100 shares, the balance of your money, that is, £112 10s. 0d., would be returned to you after allotment.

When the shares are quoted they start, say, at 5s. to 5s. 6d.—that is to say, at about 2s. 6d. premium. You immediately sell and make about £10 net profit !

Not a bad little deal *if it comes off.*

What happens very often, however, is that in the case of a good issue of shares you will probably be left out altogether unless you are making application for a large amount of shares, involving the use of a considerable sum of money. I mean that if you are to send cheques for a £1,000 or more you must have this money lying idle, and if you are unfortunate enough not to obtain an allotment of shares, and your cheque is returned to you after some days, you have consequently lost interest on the money in the meantime ! That may seem a small matter, but 5 per cent interest on £1,000 —well, work it out and see !

Unfair Allotments.

Most companies endeavour to allot shares to as large a proportion of applicants as possible, and usually it may be said that allotments are fairly conducted. A good many, however, are not. During the rubber boom particularly, the applicant for small amounts, and sometimes larger amounts, was completely ignored, and the issuing companies, therefore, had vast sums of money for several days. Many companies, in making a new issue of shares, give preferential treatment to shareholders, employees, and clients of the companies.

Nevertheless, I know a good many people who make a fair income out of a continuous campaign of stagging.

Remember, however, that sometimes stags are caught; for shares which look like going to a premium immediately they are quoted, may be found to be at a discount! Since the stag usually is a man who never intends to take up these shares or even to subscribe to them fully, he cuts his loss and sometimes, when there is a rush on the part of stags to do this, shares have a bad slump.

Here is an opportunity for the canny investor. He permits stags to "bear" the price in this manner, and then he jumps in after all the stags have scrambled to get out!

10. Experts Who Help.

The average investor has neither the time nor the inclination to study balance sheets, capital which is watered, directorates which have men of good character and bad among them, and so on.

But for my part I don't think it is really necessary

for the inexpert to assume the role which is impossible for him.

It takes a lifetime to obtain a real grasp of all the intricacies of public companies, and then there is possibly no time left to look out for *unexpected* snags!

There are so many expert financial writers nowadays, who have a staff and channels of information denied to the ordinary investor, that it is really unnecessary to go beyond making inquiries from them whenever it is necessary. Needless to say, there are good financial experts as well as bad, interested advisers as well as disinterested advisers.

Therefore, it behoves the reader to apply to most reliable sources, and then if he has any remaining doubt he may check the opinion of one expert by applying to another.

This does not mean, I repeat, that advice conveyed through every written channel should be blindly followed. *Investors should always use gumption!*

11. Partly-paid Shares

Beware of purchasing a share which seems low in price, but which is in effect only a partly-paid share.

Thus: River Plate British Continental Meat Company are shares of £1 denomination. A friend of mine seeing that they stood at 8s., purchased 200.

"At any rate," he said, "if they go absolutely phut I can't lose more than £80."

That is where he made an error which is fairly common among inexperienced investors. The shares he purchased were indeed of £1 denomination, *but they were only* 10*s. paid.* That is to say, the company, in

issuing the shares had only called in *half* the amount, and were entitled to call in the remaining half as and when they liked.

Often companies become so prosperous that there is no need for them to call in outstanding amounts. Some of the shares, especially in the insurance world which to-day stand at big premiums, are only partly-paid shares.

Find Out First !

Remember, however, that there is always a risk in buying shares that are not fully paid. My friend, who purchased the River Plate British Continental Meat Co. shares, not only lost his £80 but a good deal more, for a little while ago the shares were quoted at 15s. discount, which meant that if he wished to sell his shares *he would have to pay the buyer* 5s. *per share* in order to get out his liability of paying the remaining 10s. call which was anticipated.

Strange, isn't it, that you should have to pay somebody to take the shares off your hands ? But that's what it comes to if you fail to *find out first* whether a share is fully paid, and, second, whether there is any likelihood of a call being made in the case of a partly-paid share.

It may seem cheap, for instance, to pay a shilling for what you regard as a £1 share, but when on investigation you find that there is a fifteen shillings outstanding call on each share, it doesn't seem quite so " cheap ! "

Therefore, you should always ask your broker whether a share is fully-paid, so that you understand fully what your possible liabilities may be in the event of there being further calls.

CHAPTER XVI

THE LANGUAGE OF THE HOUSE

By this I do not refer to the language that one sometimes hears during a Stock Exchange boom.

I refer to the colloquial or popular technical terms which are used among brokers and jobbers in order to save time and to avoid misunderstanding. It is necessary for the client to come to some common understanding with his broker as to the use and means of certain terms.

For instance, if he wishes to spend about £800 in buying "Brums," which is the market term for the London, Midland & Scottish Railway Ordinary Stock, he should not ask his broker to buy 8 "Brums," for if he does he will receive a shock when a Contract Note arrives and he discovers that he has spent several thousands of pounds.

Make Your Orders Clear.

This error of imagining that "one" means one hundred is common among the uninitiated investor. He thinks that because such stocks are in denominations of a hundred pounds all he need quote is the initial figure of whatever amount he wishes to deal in.

But when I tell you that the broker uses the initial figure to mean not hundreds but *thousands*, you will realize the extent of such a misunderstanding.

The client, for instance, who wished to purchase £500 of "Brums" should have expressed himself in

this way: "Buy half 'Brums'"—meaning a half of a thousand. The reason for this is that in railway stock business of big amounts is invariably done. Although it is possible to purchase merely a £100 stock nominal, yet the majority of orders which come from the banks, trustees, and insurance companies are for several thousands.

So that, instead of using the full term in thousands of pounds, the more convenient method of referring to each thousand pounds of stock by its initial figure is used.

Thus, instead of asking a broker to buy or sell—"£10,000 worth of London and North Eastern Railway deferred stock" the brief order "Buy 10 Berwicks" meets the case, and there can be no possible misunderstanding about it.

Where Mistakes Arise.

I don't suppose that many of my readers will be giving orders of this magnitude, but it is worth their while understanding this point clearly, even though they may buy no more than £50 worth of stock.

Should you wish to deal in less than £500 worth of such stock, you would have to make the position very clear by saying what you really intend to spend, but if you are dealing in £500 or more then you become one of the initiated by using the House term.

"There are more mistakes made over this simple issue than anything else," a broker told me.

Over the telephone it is bad enough when a client has to augment his order with a long rigmarole of explanation in his anxiety to avoid misunderstanding.

But when a client living a long distance away sends a mysterious order by post, and the market is on the move—well, I advise you not to listen to the language of the broker !

How to Term Shares.

This abbreviated form, let me repeat, refers only to stocks, and does not obtain in the case of shares. For instance, you intend to buy 100 Courtaulds at £5 a share, thus spending (including expenses) some £520. Your correct instructions to your broker should be "Buy 100 Courtaulds at five pounds."

You would not say "Buy one Courtaulds," for this would cost you about £5 10s. 0d. !

The easiest way to remember all this is to realize that you deal both in stocks and shares according to their denomination. You yourself can roughly estimate the quantity of stocks or shares you are able to purchase with the sum you propose to spend. Therefore, let your order deal with the *number* of stocks or shares you wish to quote.

"Berwicks" may be standing at 20 or over a 100, but the point to remember is that whatever the market value it still refers to a hundred pound stock nominal.

Perhaps the clearest way of all, if you have any doubt about the matter at all, is to use plain language and call a spade a spade. If you are in doubt whether "one" means a hundred or a thousand use the longer terms, *but make your order clear.*

Thus, if you wish to buy "A £100 stock London and North Eastern deferred at £1" say so *in full.*

Do not in any circumstances be ambiguous.

Learn to understand what you wish to deal in, and do not leave it to the broker to puzzle out what you mean.

Bulls and Bears.

The House has a good many other colloquialisms which it would pay to understand. Every investor knows that "Shells" is the abbreviation for "Shell Transport and Trading Ordinary Shares," or that T.C.L. refers to "Transvaal Consolidated Land Shares."

I will give you a list at the end of the book of the market terms used in everyday business. Besides being useful and saving a lot of time, it gives one the air of being in the know!

I suppose the terms "bull" and "bear" are pretty well understood by now, although only a day or two ago I was asked for the explanation by a lady who deals in stocks and shares with great regularity.

A "bull" may be summed up in a word—an optimist! He "sees things" better and believes that certain securities which he takes care to buy are going to rise.

You will hear a broker or jobber say "I am a bull of 5,000 Anglo-Java." That means he has purchased this stock, and is waiting for the price to rise.

The bear, on the other hand, is the pessimist, or a man who "sees things" lower, and is going to do his best to depress the shares which he has sold in anticipation of being able to repurchase them at a lower price.

A man on the bear tack often sells securities he doesn't possess. But I explained this more clearly in the chapter on "How to Deal: Carrying Over."

CHAPTER XVII

THE OUTSIDE BROKER

I INDICATED in the earlier part of this book that there were two mediums through which you might deal on the Stock Exchange—the banker, and the authorized broker.

There is, however, a third and dangerous way; and that is through an unauthorized or outside firm of brokers—a medium against which I would at once warn my readers.

I am not claiming on behalf of the 3,000 odd members of the Stock Exchange that they are all angels, or that every broker outside the House is a scheming scoundrel. The fact remains, however, that the

> Member of the Stock Exchange and his financial morals are under the constant surveillance of an all-powerful Stock Exchange committee, who are jealous of the honour and reputation of the House, and who will not hesitate to deal with a member found guilty of financial turpitude. They have drawn up innumerable rules, which every member of the House must obey.

Severe Punishments.

Cases of "hammered" members—that is, of members who are unable to fulfil their financial obligations—are made known to the public through the Press, but the various punishments inflicted on members for technical breaches or for other minor offences are not known to the general public.

The frail accredited member of the House is faced with the knowledge of the consequences should he succumb to any temptation to deviate from the correct path; he may lose his livelihood, he may be pointed out to his fellows and the world as having been caught cheating, and having been driven out of the society of decent brokers.

Put it at its lowest then, the public who deal with members of the Stock Exchange are in some measure protected by the Committee.

There are none of these safeguards in relation to the outside broker.

He may be a perfectly honest fellow, his financial integrity may be beyond question—*but how are you to know?* How are you to pick from the crowd of dishonest catchpenny bucket shops the exception who may give you a square deal?

You Can't!

The fact is you *can't.* The few who deal above board are lost in the crowd of unscrupulous dealers who have made the name of Outside Broker a by-word among the investing public.

Every time you deal with such a firm you run the risks which you might well avoid in dealing through the orthodox channels.

What is the purpose of the outside broker? What advantages, if any, does he offer which the official broker does not; and why is the business of the bucket shop an apparently flourishing one?

The answer to the first question must be given in two parts—

One is, that the purpose of a certain type of outside broker is to foist spurious securities on foolish members of the public, or to unload large parcels of shares which could not otherwise be sold on the Stock Exchange for anything near the same value.

Mug Catchers!

Then there is the more legitimate type of outside broker who contrives to do away with the need of a jobber, and endeavours to effect a deal between clients through one medium only—his own.

Such an outside broker is a rarity, however. By far the majority are mug-catching concerns, whose chief desire is to part fools from their money.

They have the advantage of the official stockbroker in being able to advertise and circularize widely, whereas this is strictly forbidden in the case of members of London and Provincial Stock Exchanges.

This rule forbidding advertising by its members, by the way, is *the only advertisement* authorized by the Stock Exchange!

So that whereas the uncredited and discredited outside broker may make full use of the valuable columns of the Press and circularize anybody, the only concession permitted members of the Stock Exchange is circularizing *their own clients only.*

Anathema!

Small wonder, then, that the outside broker is anathema to the accredited broker. Don't talk of the one to the other. As well talk of the advice your banker has given to you! Yet it is not mere business

rivalry that inspires open hostility on the part of the official brokers to outside brokers. While there is the natural resentment that outsiders or, strictly speaking, non-professionals should be permitted to carry on with impunity, they realize that the reputation of the investing world is liable to be smirched again and again. Members of the Stock Exchange do not believe that a banker who is so preoccupied with his own affairs can afford the time to study the intricate business of stock-holding; yet they admit that the main purpose of a banker, apart from his own interest of half commission, is the very reverse of that of the outside broker.

Two Extremes.

The outside broker invariably induces a client to speculate, while the banker is all out for gilt-edged stock and safety. The two classes go to extremes. The outside broker is too rash, the banker too cautious. Lately there has been intense activity on both their parts, and our friend the accredited broker is very wrath about it. Quite right, too.

Much of the abuse which is showered on the heads of the outside brokers is justly deserved. While, as I say, it would be too sweeping to assert that all outside brokers are dishonest, I repeat that there are few—very few—who do a straightforward business. I have myself dealt with five of these firms—for the sake of experience—and of only two of them I have nothing to complain. Of course, dealing with somebody like myself who knew the ropes, they did not try any of their old games with me.

It is safe to lay down the rule, however, that novices

should leave the outside broker severely alone. The majority of them offer advice which is often dangerous and never disinterested. A person with little or lots of money is courting disaster in dealing with these sharks, while people with money to invest can easily obtain an introduction to a reliable broker.

Costly Experience.

One finds it difficult to understand why the laws which permit unofficial brokers to flourish also permit a *dangerous type of "bucket shop" financier* on equal terms. Who is able to distinguish the genuine outside broker from the dishonest trickster? To pay for the privilege of finding out by experience is not to the taste of every one.

There are a few main sources of income beloved by outside brokers. One, options, is a method generally in use by outside and inside brokers, and it doesn't make any difference to whom you lose your money. But the other little tricks are played exclusively by the outside brokers. They are—

1. Margins.
2. "Bargains" in shares.
3. New flotations.
4. Selling blocks of shares.
5. Buying and selling without charging commission.

There are others. But these will serve. Let us examine them.

Where the Catch Is.

MARGINS. You are invited to choose any shares you like—*especially those recommended by them*—and all you

need do for a start is to pay 20 per cent on the shares. Thus you choose on their recommendation 100 Waterworks at £1 5s. 0d. each. Total cost of shares—£125. Then there is stamp and fee commission, and 6 per cent interest on remainder. The inducement usually held out is that not only is there a chance of capital appreciation, but there is a dividend every year or half year.

That sounds easy enough and straightforward enough. What actually happens, however, is that you buy your 100 Waterworks and you pay £25 cash on receipt of the contract, which is sent on the same day as the purchase, so that it reaches you next day. If the shares drop, you are called upon to maintain the 20 per cent margin —that is, a fifth of the current cost of the shares.

You Go On Paying.

If, on the other hand, the shares go up, the difference is not returned to you. On the contrary, you are expected to go on paying monthly instalments at the rate of £25. When dividend time comes round, and there happens to be one declared (very doubtful in the class of shares recommended by bucket shops), the amount, *less income tax at the full rate,* is discounted, and the balance credited to your account. All this while you are paying interest at 1 per cent above bank rates on outstanding money, *when all the time the shares you have purchased have never actually been bought by the firm at all.*

You have paid £25 in cash, plus stamp and fee, commission *plus* 6 per cent interest, when, as a matter of fact, *the bucket shop has not expended a farthing.*

In most cases those who bought the shares under these questionable conditions never take them up, so that all you have paid represents net profit to the firm.

"Margins" are resorted to with great success by bucket shops, who have blocks of shares to place for moribund or newly-established firms.

When a company is not doing well, someone in the know makes use of the bucket shop to unload his holdings skilfully on the unsuspecting clients who are on the books of the "broker."

A Strange Thing.

At first sight this 20 per cent margin business seems a very convenient thing for the bullish investor.

Thinks he—

"There is bound to be a rise in these shares within a few months. At any rate, the dividend is due in a few weeks, and the price is bound to go better. I can't afford to pay the whole lot down. I'll pay a fifth, and when the price goes up I'll sell and take a profit. Besides, this circular recommending shares has just gone out broadcast. There will be a general movement to buy and—well, I'll get in now."

And so he gets in.

He buys 50, 100, or 250 or more shares. He sends his cheque for the 20 per cent cover, and next day gets a contract note. Now mark a strange thing. His contract doesn't bear the usual "Bought for . . . ." which the inside broker uses. No, the bucketeer is too wary for that. His phase is "Sold to . . . ." The reason for the difference is this: The accredited broker actually does buy the stock. (Only one in a hundred

takes the risk himself on options or carrying over.) The outside broker does *not* buy the stock. So that instead of a number of buying orders putting the prices up he has actually become a " bear " of the stock. That is to say, he has *sold you* stock he hasn't got, and consequently he wishes the price to go down, so that in the event of any client paying off the balance and calling for the stock he may buy at a lower price.

Merely Book Transactions.

I caught out three outside brokers in this pretty little game. I bought stock from them and sold through an inside broker. I thereupon sent a cheque in settlement to the outside broker and called for a transfer. None was forthcoming *for weeks.* Excuse after excuse came instead until—I showed them I was angry !

What happens in the majority of cases, however, is that even if the price goes up and the client wishes to sell, he gets the outside broker to sell for him. Actually the shares are no more sold on the market than they were bought there. So that our smart friend first of all charges the client his own idea of market price, charges him commission, stamps, and fees which were never expended, and then credits his own idea of a selling price less more commission. Small wonder some of them have palatial offices to impress the client.

Law Officers, Please Note !

I am wondering how the law stands in regard to these stamps and fees which are never paid to the Government, and income-tax which is deducted from the client's " dividend " but is never paid.

This is a point that I have never seen commented on before, and I recommend it to the attention of the Inland Revenue.

Remember, then, the vital distinction between your position (*a*) as a client of a bucket shop, or (*b*) as a client of an accredited broker.

A Big Distinction.

If you are dissatisfied with the manner in which your business has been conducted by a member of the Stock Exchange, you have your remedy—

> You can write to the Committee of the Stock Exchange, who will make the closest inquiry into any legitimate grievance. Broker and jobber will be called before this Committee, who will sift the information you have forwarded them to the uttermost.
>
> In every transaction you are thus secure in the knowledge that a powerful body is ready to protect your interests, and this knowledge must act as a deterrent to the few brokers whose impulses might otherwise lead from the severely correct path.

On the other hand, deal with an outside broker and what recourse have you short of invoking the law? *NONE.* If you purchase from him at a higher price than you should, the law won't help you.

If he sells you shares that the Stock Exchange won't look at, the law won't help you. *And there is no powerful committee to take up your case.*

Worth of a Share.

A share may be sound in itself, but it is absolutely of no value if you want money and can't sell it. The

value of a share is what you are able to get for it in the open market.

There are many shares that do not enjoy a free market, that is to say shares in which it is difficult to deal.

An excellent way of testing the value of a share offered by a bucket shop is to ask a broker in the Stock Exchange *what you could sell it for*, and whether *it is always easy to deal in.*

Again, remember that bucket shops buy large blocks of shares from owners who can't get rid of them. They then circulate their clients often at a higher price, expressing all sorts of optimistic views concerning their prospects, in fact, actually creating a *fictitious and temporary* market. After this artificial boost and hundreds of their clients are loaded with the shares, *the market suddenly dries up*, and the client wishing to sell in the open market either finds that he cannot sell at all, or he must throw away the shares at rubbish prices.

DON'T DEAL *with bucket shops!*

CHAPTER XVIII

THE HISTORY OF A BUCKET SHOP

For the benefit of posterity—or those who would wish to read an illuminative and authentic document of bucket shop history—the following is appended. Incidentally, it will serve more than would a mountain of theory, explanation, and exhortation to the host of get-rich-quick innocents who still part with their money with guileless agility. The quotations I give are *from actual circulars sent to me*—

4th July, 1921.

Dear Sir,

THE GERMAN MARK AT 280 TO THE £

The German mark has depreciated to 280 to the pound.

This has led to all kinds of rumours. The fact of the matter is that Germany has already placed at the disposal of the Allies another 44 million gold marks in advance of the next indemnity payment due on the 31st August.

These indemnity payments have had a very disturbing effect on Foreign Exchange, and especially on the German mark.

According to a *Times* cable, however, negotiations are now proceeding between Mons. Loucheur, representing France, and Dr. Rathenau, representing Germany, for the *payment of future indemnities in kind* (raw material and manufactured goods).

It is, therefore, not unlikely we shall soon see a very decided improvement in German marks, and perhaps the experience of last Autumn—when German marks improved from 300 to 215 to the pound within ten days—may again take place.

We refer, in this connection, to the enclosed pamphlet on

"THE ACTUAL AND FUTURE POSITION OF THE GERMAN MARK"

and to the exchange fluctuation of the GERMAN MARK in the last two years—

	Highest	Lowest	Difference of
1919 . . .	200	67·60	132·40
1920 . . .	353	147	206

We recommend ourselves for all transactions in GERMAN MARKS (see enclosed order form), and beg to remind our clients and correspondents that we are in a position to deal with equal facility in transactions involving a purchase of one million GERMAN MARKS, or a purchase of only one £100 GERMAN 3 per cent GOVERNMENT LOAN BOND which costs to-day the modest sum of £6 2s. 6d.

Your instructions will be appreciated and carefully executed.

Yours faithfully,

The "enclosed pamphlet" deals with "the actual and future position of the German mark," and is headed

WILL THE MARK IMPROVE TO 200?

Needless to say, the arguments are wary and insinuating. Three pages of the pamphlet deal in a highfalutin' manner with the position "in order that our readers may profit by it."

The German financier is the subtlest in the world; and as the time must be ripe for raising the value of the mark abroad, that is to say for the equalization of its internal and external purchasing power, it follows that we shall presently see the exchange value increase very considerably.

"What are the profit possibilities of German marks?" is the next sub-heading.

"If these deductions are accurate, and we feel positive that they are, then large sums must be made by buying the mark at its present

undervalued quotation. A drop from, say, 400 to 200 means a gain of 100 per cent, and if bought on margin, then the profit would work out at something like 500 per cent. Now is unquestionably the time to buy the mark, and our considered advice is—buy and buy quickly.

"The subjoined table illustrates approximately the return upon an investment of £100 in the mark at an exchange rate of 400 marks to the £—

Purchase Price	Sale Price	Profit	Profit
Marks	Marks	Marks	£ s. d.
400	350	5,000	14 5 8
400	300	10,000	33 6 8
400	250	15,000	60 – –
400	200	20,000	100 – –

"By way of explanation, taking the second line as an illustration, £100 is invested at 400 marks to the £, the sale price being 300, and the profit realized amounting to £33 6s. 8d. In an active market, like the present, a deal of this nature is often consummated within a short time; and with the Stock Exchange as idle as it has been recently, the investor is naturally attracted by the larger and quicker profits attending Foreign Exchange operations.

"When an investment is made on margin, then the return is proportionately greater; and in the present state of Germany's industrial development, a fairly quick improvement of the mark to 300 or even to 250 may be confidently expected."

Comment would be stinging—with except, perhaps, an expression of sympathy to the "suckers" (as the Americans succinctly put it) who were let in by this precious palaver.

Next, please—from the same firm of outside brokers.

June, 1921.

WILL THE FRENCH FRANC RECOVER ?

Dear Sir,

Small investors and large speculators alike all over the world are trying to answer the above question.

On an improvement of the French franc depends the financial

position of Europe to-day. We have, therefore, asked our expert on Foreign Exchange to compile an article entitled—

"The Actual and Future Position of the French Franc"

which we have pleasure in sending you herewith.

It will pay you well to read this article carefully, for the improvement *of the French franc will not only* benefit the actual investor in French francs, French Government Stocks, or other French securities, but it will benefit the entire world.

Although Germany is at the present moment "kicking" against the Indemnity demands, there can be little doubt that payments will be enforced by the Allies, and *France will then be in receipt of between* 52 *and* 156 *million pounds per annum.* France's financial position becomes then again strong, and already the success of the pending New Loan in America for 100 million dollars can be considered a foregone conclusion.

Considering that the French franc was down to 44·77½ last year—considering it was quoted as low as 25·96½ in 1919, it is pretty obvious that an improvement, if perhaps only a gradual improvement, can be anticipated from to-day's figures of 55 to the £.

A recovery of the French franc from 55 *to only* 40 *to the £ gives a profit of* 25 *per cent.* Under the circumstances, the eagerness of English investors to invest in French francs (by purchasing cheques on Paris), French Government, Bank, and Industrial Securities, is easily explainable, the more so as the English Market does not now offer the same opportunities.

Dangerous Nonsense.

I should like to place on record more of this dangerous nonsense, but I find that to quote even a tithe of the voluminous pamphlets and "special tips" sent to me from time to time would take up far more space than I can give. Such as the following offers, for instance—

"108 per cent capital appreciation in five months"

"The best bargain in the Industrial Market."

"A Stock that must appreciate with the mark." (German 3 per cent loan !)

"Five speculative possibilities."

"Credit National Bonds."
"Will the mark improve to 150 ?"

We have seen that even inside brokers may err *when their advice is asked* on certain securities, but an examination of literature sent out by bucket shops shows a *systematic attempt to foist rubbish on the public.*

Another Specious Offer.

Here is another letter, however, which I am bound to give—

April, 1923.

Dear Sir,

We have been looking through our correspondence with you, and regret we have not yet had the pleasure of transacting any business on your behalf.

We have now much pleasure in submitting a further recommendation to you in the shape of THE PHILLIP MEAD BAT COMPANY LIMITED, which is an attractive industrial investment yielding £11 18s. 1d. per cent.

We invite your careful perusal of the enclosed particulars, as we are confident that by purchasing the shares at the present price of 21s. you will be making a high-class investment, likely to show considerable capital appreciation in the near future, besides returning an attractive income yield at the present moment.

We trust we may be favoured with instructions, which will be promptly executed, subject to the shares still being available.

Assuring you of our best attention at all times.

I did not bite. Those who did, far from receiving a yield of £11 odd in this "high-class investment," *lost every penny, for the company wound up.*

Now I am not suggesting that in this instance the letter was sent out with the deliberate intention of defrauding the public. The most that can be said for the bucket shop is that it was "misinformed as to the standing and prospects of the company."

How it is Done.

But here again the losses fall on the confiding clients, not the bucket shop. As in the case of the Treasure stunts, with which I deal in a subsequent chapter, what happens is that generally somebody—connected with the company—wants capital, and calls on the bucket shop.

"You have a big list of names," he says. "Well, I have a proposition which will give you so much on each share."

Some bucket shop proprietors may not be willing to perpetrate a downright fraud, but their first and foremost concern is: *How much per share are we likely to make?*

All their expenses are paid by those who wish to unload the shares, and, in addition, a discount on each share they sell—whatever may happen to it in the end—puts money into their own pocket. It is, therefore, made a payable proposition, which explains why they boost the shares.

CHAPTER XIX

BEHIND THE SCENES

I PROMISED I would take the reader behind the scenes with some of these outside brokers.

Most readers, some time or another, receive circulars from an "investing agency" with a high-sounding title. A regular mouthful of names which, strangely enough, a good many people find it always easy to swallow. Not only is the name impressive. If you are cautious enough to go and see for yourself the benevolently inclined gentlemen who are offering you stocks and shares under the market price, or the lion's part in a gold mine for next to nothing—I say, that if you are one of the few who go to the trouble of seeing for yourself, you will no doubt come away more impressed than ever! For the offices of these "investment agencies" are as dignified as their names.

Gold Bricks.

Splendid upholstery, uniformed commissionaires, beautifully-gowned typists, waiting-rooms with pictures of millionaires who "got there" by buying shares in the Gold Brick Mining Syndicate. Presently, after you have been waiting just long enough to feel damnably unimportant, you are ushered into a room with soft lights, endless financial books, pamphlets, and charts. A suave-looking gentleman advances from behind a desk littered with "valuable" bonds and share certificates, grasps your shaking hands, and in a voice full

of fatherly welcome ushers you into a seat—a mightily soft armchair, into which you sink comfortably but helpless.

That is actually a picture of one of these investment agencies, or to give it its more correct title—the Modern Bucket Shop.

Walking Into the Parlour.

Now you might think that if you go into the office yourself, instead of leaving it to the post, you are doing a wise thing. But the client who walked into the parlour of a bucket shop and got out again without leaving the "dibs" has yet to be found, and when he is, a large body of less fortunate individuals will no doubt put up a monument to him.

Not long ago I went myself, for I happen to be of an inquisitive turn of mind. I flattered myself I knew a thing or two, yet I came out—minus £1,600. But I wasn't really "had." I knew what I was doing. The money I spent was on perfectly good negotiable securities—not the stuff *they* wanted to sell me, and I took jolly good care to collect these securities on the nail. If everybody did this the bucket shops would have a thin time. But they don't. That is why one hears of so many tragedies of unsuspecting men and women who have parted with their life's savings.

A Big Turnover.

When they saw that I had money, and knew a thing or two, they made an interesting suggestion, which I accepted with avidity. *This was that I might join them as a partner in the bucket shop!* That is exactly what

I wanted, for I wished to find out first-hand the ramifications of these growing concerns. Despite the law, they are opening up everywhere.

The subsequent negotiations enabled me to obtain an excellent view behind the scenes. This was a big bucket shop, with many thousands of clients and prospective clients, and a turnover running into six figures.

"I don't propose to go on working all my life in this game," said the chief bucketeer—"and we ought to make our pile in three or four years."

"Why do you need my money, then?" I asked naively.

"Well, the greater number of sprats you throw in our game the more mackerel you catch."

I wondered whether the mackerel knew!

I saw the famous "Intelligence Bureau" of such concerns—you know the sort—"Our Secret Service which is in touch with all the leading businesses," and upon which many people, wishing to obtain "inside knowledge" of "certain stocks and shares," respond to the bucketeer's bait.

How They Get Your Name.

This "bureau" turned out to be a young clerk armed with a Stock Exchange directory, from which he took all the information, re-wrote it as if it were all exclusive information upon which their clients were advised to act!

Thus, supposing you are a holder in the New Tin Company. First of all the bucketeer looks up your name among the files of shareholders at Somerset

House. By payment of a fee he is able to take away with him a complete list of all the shareholders in any public company. I saw several such lists ready for operation in the head's department of the bucket shop. Now comes operation No. 2. The "intelligence bureau" prepares a circular embellished with all sorts of figures, which he has culled from the directory, which he uses in the way best suited to the story he is going to tell you.

Gets You Both Ways.

This might be either that you should buy more shares or that you should sell those you hold. It may suit his book either way. If he decides that you *should sell,* you may be sure he has already sold a block of shares himself first, and that he is going to recommend you to invest your proceeds in one of his own pet dud concerns. Usually, however, his recommendation is for you to buy more. We shall see why. In the circular which he sends you, marked "Confidential," he states that "special information" regarding the New Tin Company has come into his possession, and that he is prepared to place this knowledge at your disposal, if you so desire. Naturally, being a shareholder, your curiosity is piqued, and you write for the information. That is all he wants. Your name is now down on his books, and you are earmarked as a prospective client. Back comes the "inside knowledge" gleaned from the *Year Book,* suggesting that big contracts and bigger dividends are on the tapis, and that a purchase of a few more shares will be to your advantage.

Were You Among Them?

"We are sending out 5,000 of this," said my guide, pointing to a pile of stamped addressed envelopes ready for posting, "and we are sending them out at the rate of 2,000 a day, not only of the Tin Company, but others."

"How many bite?" I asked, bluntly.

"A good proportion of them," was the reply. "There are some who never trouble to answer, and others just want information without intending to buy. But many act on our suggestion at once, going to the extent of wiring us, and the others having got into touch with us are bound to bite at something or other sooner or later. We have many other 'good lines' ready"—he added laughingly.

It must not be imagined, however, that the bucket shop deals only with rubbish. That would never do. People are becoming curious to know more about the things they are investing in nowadays. So it becomes necessary to catch the smarter mugs with such attractions as shares of the New Tin Company.

"Margins" Again.

"This is the thing that pays us most," said the bucketeer, inviting me to examine a huge ledger marked "Margins." Six pages were set aside for the New Tin Company clients. What happened was as the bucketeer anticipated. He had first bought a *few hundred* New Tins at 16s. each, and he had also bought *ten* at 17s. 6d. I will tell you why in a moment. Now he swamps the post with thousands of circulars setting out wonderfully alluring exclusive figures of yields, etc., and offers to sell you from 250 up to 5,000 of the

shares on margin terms. That is to say, you pay a fifth of the full price, and undertake to pay the difference should the price fall below that which you paid for them. Then comes a cunning move which is not as widely known as it should be, even in Stock Exchange circles. In asking you 17s. 3d. per share, he refers you to the official list of the Stock Exchange, which is printed in the leading newspapers. This list records the dealings or transactions done in all securities each day. Under New Tin you would find that a transaction had actually taken place at 17s. 6d.

Spurious Markings.

You are not to know that this was deliberately done for your benefit, and that *only ten shares* had changed hands. The worst of the present system of the Stock Exchange List is that actually nobody can tell *how many* shares are represented in these transactions. Small wonder the List is known as the "Bad Boy's Diary," for it certainly is open to every sort of abuse.

"You will see," writes the bucketeer, in his circular to you, "that shares changed hands at 17s. 6d. We are prepared to let you have a hundred or more at 17s. 3d."

And you say to yourself—

"Well that's fair enough"— not realizing that you could have obtained the same share yourself at around 16s. !

Now comes another smart piece of work.

"This company," you say to yourself, "must have a vast organization. A number of people whom they circulated will buy these shares, and that in itself will

put the price up." Therefore, you wire an order so as to get in first.

Not a Share Bought.

But the fact remains that the bucketeer *is not going to buy a single share* for the orders he receives. The few he bought *before* circulating you were in case some too-eager clients wanted to buy the shares outright, and because he wished to have the transaction recorded at a high price. But in the majority of cases, as the private ledger showed me, people bought on margin; they sent orders ranging from fifty to five hundred, and paid 20 per cent down in cash. In one campaign no fewer than 25,000 shares were bought in this way, quite enough to move the price a shilling or more *if the bucket shop actually bought the shares.*

But an upward moving price was the very last thing they wanted. It paid them to see the price of the share *go down*, for the obvious reason that if the shares appreciated, the bucket shop would have to pay the profit out of its own pocket. Therefore, the bucketeer takes good care that the shares he recommends are not likely to jump in the direction you are expecting. The bucketeer, in effect, is like a man who offers to go to a bookmaker and back a horse for you and sticks to the bet. He only takes the risk in doing so, believing full well that the horse hasn't an earthly. That is exactly what all these bucket shops do, so that it is a safe thing for *readers to throw away such circulars into the waste paper basket.* Those who haven't done so have been badly bitten, and some very bad cases have been brought to my notice.

More Secrets.

There were other "secrets" revealed to me.

In one case the firm had bought at a low price 500 shares in an exploration company. A nicely printed pamphlet was prepared, setting out in an ingenious manner the prospects of the company. Then a full list of shareholders of that and other companies was obtained in the usual way at Somerset House, and a charming letter was prepared in which "a special offer" was made for a cash option or on margin. Now the die was cast, and the question was how to make an official price for the shares. These shares were so lightly held in the Stock Exchange that they were not quoted in the official list, and there were no dealings. The firm, therefore, got into touch with a broker in the House—there are, as I have said, some brokers who will do *any* business that brings in commission—and "bought" 10 shares from him at a high price. This duly appeared in the official markings, so that the bucketeers in their letter did actually say "You will observe that dealings in the shares are quoted in the Stock Exchange supplementary list at £1 5s. 0d. We are, however, letting our clients have a parcel of these shares at the special price of £1 3s. 6d., provided an order is received by return of post."

An Amazing Example.

Orders—nearly all in 20 per cent margins—came in for over 5,000 shares. The 500 shares which they obtained around seven shillings were used as a reserve. *Actually they were never called upon*, but you may be sure that before the bucket shop had closed the deal in

Explorations they had induced a seeker after bargains to take the lot.

An amazing example of the uses to which outside brokers are put was the case of the Navarino Discovery. More than one firm was asked to handle this particular little gem. As I am in a position to give the facts, I do so in the hope that they may prove useful not only to my readers, but to the authorities.

Certain people with big parcels of these shares to unload first of all approached a firm of outside brokers in London.

"We are on the eve of a big discovery," said the official of the company who was trying to unload his shares, "but I have had a great deal of expense lately, and I can't wait. I am prepared to sell half of my holdings. If you will circulate your clients I will pay all expenses, including cost of postage and a nicely printed illustrated booklet. On each share you shall make a nice profit. You run no risk."

A Pretty Business.

That sounded like a nice proposition. The fact that there was no financial risk was all they cared about. The risk to what reputation they had didn't seem to matter. Here was a pretty piece of business.

Had those shares been offered on the Stock Exchange there probably would not have been a bidder at any price.

But the bucket shop did not hesitate to lend its name, its organization, and its choice vocabulary to entice its clients to pay far more for the shares than they were worth.

Don't *reply* to bucket shops.

Once you do, you will be pestered until you bite.

Don't even read their circulars. Throw them on the fire.

There is no royal road to fortune. There is a good one to misfortune—deal with bucket shops!

If you are anxious to make a fortune, find out at first from a reliable and accredited stockbroker "what the market thinks" of the shares you have in mind.

Now read the chapter on "Ramps."

CHAPTER XX

RAMPS

It is said that a fool is born every minute, but it is equally true that a crook is born at the same rate, else how can one account for the crowd of unscrupulous share sharks who devour their victims daily ?

While the activities of the outside brokers and the bucket shop may be characterized in diverse terms of criticism, one word alone may describe the house-to-house pedlars of foreign bonds or shares in treasure hunts—that word is Ramp.

For sheer brazen scoundrelism such attempts to defraud the ignorant are hard to equal. And to know that the laws of this country are insufficiently comprehensive to meet such campaigns is galling in the extreme.

Glib Sharks.

Widows, retired pensioners, and clergymen are not only got at by this methodical house-to-house canvassing, but by a flood of circulars, often posted from abroad to victims in England, and these are often followed up by personal calls from glib-tongued sharks in fur coats, who ride in expensive automobiles.

You may say that such foolish people who entrust entire strangers with what little money they possess deserve a lesson. But laws are made to protect the unwary from the clutches of the unscrupulous, and it is astonishing to learn that no such protective measures

were contemplated by the authorities until long after the damage was done.

Yet where the law fails to co-operate, the all-powerful Press may step in and help. I am therefore glad to see that the leading journals have been increasingly active in scotching the campaign which is energetically pursued by the share sharks.

Exposures in the Press.

Nothing is so efficacious as exposures of this sort in the Press; that is to say, pending the means of being able to send the instigators of these ramps to the fate they deserve—penal servitude.

As you may know, it is an extremely risky business for newspapers to attack these swindlers, who are sometimes powerfully organized and legally advised, so that they may pursue their nefarious intent, and at the same time keep just within the right side of the law.

In any case, even when such roguery is self-evident, it is not always easy to obtain the definite evidence the law requires, otherwise how could one account for the contemptuous attitude of those who run these ramps?

Therefore, say I, no greater service to the community could be rendered than in a bold exposure of such attempts to cheat the innocent, and although some newspapers have had many unfortunate experiences, wherein the law of libel contrives to help the crooked at the expense of those who are endeavouring to render public service, *they still stick* to their guns, and pursue the rampers until their foul purpose shall be known from one end of the land to the other!

Courageous Journals.

Readers, too, should remember that costs in prosecuting such actions are tremendous, and *even when a case is proved* it is found that the cunning rascals are able to throw the burden of costs on to the successful litigants.

Therefore, I repeat, we should applaud those newspapers and journals who take their courage in both hands and defend our interests against the share sharks. It may, perhaps, be invidious to name the newspapers that have been in the forefront in this respect. *Truth* has performed yeoman service in the past, as it does now—so has *John Bull.* The financial Press is more conservative and cautious, but both the *Financial Times* and the *Financial News* periodically warn their readers against shares to avoid. The *Investors' Chronicle* is a weekly guide of first importance. *The Statist* is a sound and reliable journal; so are the *Investors' Guardian* and the *Stock Exchange Gazette.*

The *Daily Express* has enough to do in gathering red-hot news without acting the part of the policeman, but it has a City Editor of established reputation, while the *Daily Mail,* the *Daily Chronicle,* the *Daily News,* and the *Daily Sketch* have each rendered inestimable service in exposing ramps of all sorts.

White Collar Bandits.

For instance, the *Daily Mail* exposure of the American crowd of share-pushers must have saved the scanty earnings of a good many people. Some of the baits offered are scarcely credible to the man who knows something about matters of finance. Why

should these "white collar bandits," as the American share-pushers are called, come over here to offer 200 per cent profits to country-side investors? This never occurs to the simple folk who are taken in by the talk.

One of these firms was named the Abbey Investors' Advice Bureau, of Abbey House, Westminster, S.W. This is the kind of circular they sent out—

"Private and Confidential.

"A short time ago we received information of a share which was said to possess very big profit possibilities. We have subjected this information to a searching analysis, and have arrived at the conclusion that the share is unusually attractive. At this juncture it is obviously best that the information is not broadcast in any way, but those of our subscribers who are interested and in a position to act quickly can, with pleasure, apply for detailed information, which will be forwarded in confidence forthwith."

A Specious Offer.

A good many people bit at this specious offer, and were called upon by a smartly-dressed young man, who offered Great Dyke Platinum Areas, which, said the representative, would easily go up to £2 or £3.

The *Mail* had to pursue these people relentlessly, for at the first sign of peace the sharks became active again.

According to the newspaper's account another firm, the British and Colonial Trust, of Regent Street, W., were interested in this "bonanza." One of its readers stated—

"The representative was so anxious for me not to

miss this chance that he was able to supply me with transfer forms, so that I could fill them up at the same time as I gave instructions for the sale of my scrip. He left nothing to chance, and very readily drafted a letter to the British and Colonial Trust."

"Lucky" Investors.

Another offer, this time of British Associated Oil Company, Ltd., shares, which were offered previously through the Westminster Finance Company, Ltd., both companies of Canada, with offices in London. The Westminster Finance Company early in 1926 offered 100,000 ordinary shares at 4s. each in blocks of ten, so that investors had to spend a minimum of £2.

In regard to this offer the company undertook that if oil were not found on the company's plot within three months, all money subscribed for shares would be returned. On the other hand, if oil were found, the "lucky" investors would be entitled to take up an additional 490 shares at 4s. each. This would cost £98, but it was held out that the shares might then stand at a big premium. In due course, it was announced that oil had been found, for each subscriber received from the Westminster Finance Company a copy of a telegram stated to have been received from a Mr. M. Singer, President of the British Associated Oil Company, thus—

> Struck oil in British Associated well, wonderful producer, but owing to rush unable to gauge quantity, oil good quality probably twenty-three gravity, details later. SINGER.

You see, this happened *before* the three months, so that it was not necessary now for the company to return

its money to the subscribers. But why go on with the business ?

Ignore Callers.

For sheer audacity the proceedings of these people are hard to beat, and that we permit it at all is an amazing reflection on our tolerant way of doing things. In other directions authority will not permit the public to be fleeced, but apparently any bogus stock and share company can do so to its heart's content.

Let me repeat, that under no circumstances whatever should any investor have anything to do with callers or circulars, offering for sale stocks, shares, and bonds.

> Unless you want to lose your money, buy no stock or share unless it is either recommended to you by your banker or through *a member of the Stock Exchange.*

The amount of money made by these people can be gauged by the fact that they spend many thousands in their campaign of hoodwinking the public. Shoals of prepaid telegrams, expensive cars, endless documents, and an array of smartly-dressed men—costs that must easily run into five figures—but what is that in comparison to the huge sum that they net, a sum, according to one authority, which approaches a million pounds.

Another Exposure.

One of the leading lights in this nefarious campaign is stated to be worth at least a quarter of a million, and travels expensively all over the world.

Another swindle exposed, this time by the *Daily News*, refers to the Ford Unit operations. By using

the name of the great motor manufacturer, swindlers managed to achieve what they set out to, that is, made their people think it was a form of safe investment. As the *Daily News* rightly stated: "Britain is acknowledged to be in financial organization at the top of the tree. Yet it has no adequate machinery for protecting small investors from ramps of this kind, and it has no organization of small shareholdings which would give the £5 to £100 man a reasonable degree of safety and speculation mixed. These things should be set right. The law should see to the first and the Stock Exchanges to the second."

As I write this chapter, news comes that Scotland Yard is waking up to the amount of damage that is being caused by these gangs, and that detectives have been detailed for the special work of making inquiries. They will probably discover hundreds of the "white collar bandits" operating throughout the country. And if Scotland Yard wishes for information I can give them scores of cases where poor people, widows, and pensioners, have been let in by cunningly-worded circulars and persuasive touts.

Keep Your Money.

Have nothing to do with people who call at your doors with offers of great fortunes. Don't part with a penny. *Don't sign any form.* And if in a weak moment you do—keep your money. Let them sue you if they dare.

I am particularly glad to see that the *Daily Sketch* has been exposing certain treasure ramps. Unfortunately, there is a romantic side to genuine treasure

hunting, and the quack hunters, whose only possibility of finding treasure is from among the thousands of people they fleece, are quick to take full advantage of this. By digging up any old story of millions lying at the bottom of the sea, embroidering the story, and setting out a list of estimated profits, the average speculator, who loves to take what he believes to be a sporting chance, takes a share.

Profitless Treasure Hunts.

I should like to know how many of these treasure hunts have resulted in a penny profit !

Not one !

Incidentally, I should like to warn newspapers and the British Broadcasting Company against printing or broadcasting stories of such expeditions.

The *Evening Standard* gave publicity to the return of Lieutenant Kealey, which may have been of public interest, but they could scarcely have been aware that soon after this gentleman was to appeal for more funds for another expedition.

The *Daily Sketch* performed a better service when it characterized Lieutenant Kealey's scheme as a get-rich-quick bait. And it further showed that the other member of the expedition, " Lieutenant " G. Williams, was never an officer in the Navy at all !

Action Needed.

I suggest to the Board of Trade, whose recommendations to deal with the problem I append, that greater attention should be given to this form of money-catching.

Schemes of treasure hunts should be placed before the Board, who should be able to forbid appeals for public subscription.

Until that is done, I earnestly warn readers to have nothing whatever to do with any specious treasure hunts.

Refer all such offers immediately to your bank, or a broker of the Stock Exchange.

Best of all refer them to a solicitor!

Have nothing to do with door share-selling touts. They mean you no good!

Treasure hunts, oil plots, orange groves, land, gold mines—give them all a wide berth, *unless you are out to throw your money away.*

If after all this, dear reader, you part with any of your good money to rogues and rascals, you deserve all you get. Or *don't* get!

CHAPTER XXI

THE STOCK EXCHANGE AS A CAREER

THE last man of whom you should inquire as to the benefits of a profession is the man engaged in it. When I am asked whether journalism is a career worth entering I lift my hands to Heaven.

" Anything but——" I invariably reply.

Most of my colleagues are putting their sons to advertising.

" That's where the money is," they say. On our side of the business is—glory !

What, then, does stockbroking offer ? It is, I believe, one of the few professions, possibly the only profession, which isn't overcrowded. The law, the stage, medicine, the Civil Service, the Army, the Navy, are all full and over. So great has been the rush to motor salesmanship and wireless that the doors are all closed to newcomers, and the sign " No hands wanted " in larger letters than ever.

The Perfect Candidate.

There is, be it admitted, a limited number of members in the stockbroking profession. At the time I write there are 3,883 members of the House, jobbers and brokers, and although it is claimed that there has not been enough work to go round, it is also claimed that the Stock Exchange should be opened on Saturdays !

The qualifications for stockbroking are not to be strictly defined.

A mathematical genius may be quite at sea amid the conflicting problem of contangos, carrying over, puts, calls, and the like.

The perfect candidate is the fellow who is prepared to wear that *sine qua non*, a top hat, and say "Sir" to his *nouveau riche* client whom he secretly despises, and possess, of course, "an infinite capacity for taking pains," a readiness to sacrifice the big middle-day meal, an understanding of psychology, both of fellow members and clients—a placid, or at any rate, a temper that remains under control—a charm of manner—all go towards making the ideal stockbroker.

Yet do not all these attributes go towards making a successful soap merchant—or a seller of anything?

All Sorts of Brokers.

There are all types of men in the House, some who have splendid memory for prices, and no sense of values, others who have to refer to the list every time you want a price, but who have a real grasp of what is going on generally.

Some there are, brusque, hiding perhaps certain handicaps, others always gracious and losing money for you in the process! I say that there are all sorts and conditions of men who go to make up that amazing institution, the Stock Exchange, upon which rests the foundations of the great money markets of the world.

If you would wish your son to become a stockbroker, ask him first whether the life would appeal to him, and then ask yourself whether the boy has initiative! If he is willing, and you are prepared to foot the bill, the

best course is to get in touch with the brokers with whom you deal. They may want a boy in the office. Should this be so, the question arises whether he is taken on purely on his merits with a promise that he shall be given such opportunities as and when they arise (and should, of course, he deserve them) of getting into the House. Or you may contract by means of a premium that after a brief experience in the office he should go into the House, first as an unauthorized clerk and then as a member.

Office Training First.

The reason why he should engage himself first of all in the office is both for economy and good sense. It is always a good plan to start from the bottom, even if you don't wish to stay there for long. Besides, if later on such a youth has an intention of opening out for himself, or even if he desires to join in partnership with another broker, what better foundation could he have than an earlier training among the books in a stock-broker's office, where he would learn such routine as contract making, checking accounts, distinguishing between bearer bonds and securities passing by deed of transfer, the rates of commission, contract stamps, and many other of the multifarious duties in a broker's office.

The period for this apprenticeship must necessarily vary, for it will depend in a large measure upon the ability and acumen of the young man himself. In addition to that, as I shall show in the following details, he saves a good part of his fees for becoming a member by taking this preliminary course.

Of course, there is no rule to prevent him from becoming a member of the House without all this early training, and if he is in a hurry to become a member he may do so on paying higher fees.

Scale of Payments, etc.

The scale of payments, etc., to become a member of the Stock Exchange is as follows—

A man must serve four years altogether, either one year in the settling room, and three years in the House, or four years in the House only in the capacity of authorized or unauthorized clerk.

With such conditions fulfilled, the entrance fee is three hundred guineas.

Subscription, fifty guineas.

In addition, he must possess one Stock Exchange share, obtain one nomination as well as two securities of £300 each for four years.

A man who has not served this earlier apprenticeship has to pay—

Entrance fee, six hundred guineas.

Subscription, one hundred guineas.

In addition, he must have three Stock Exchange shares, procure one nomination, and find three securities for £500 each for four years.

Each of the 4,000 members on the London Stock Exchange has had to satisfy the committee on these points. Having got through his ordeal, he is not at an end, for the ever-vigilant eye of the committee is upon him, and any breach of professional conduct carries with it the grave risk of being struck off the list of membership.

A Tale of Two Boys.

Some years ago the head of a firm of brokers said to me—

"If you will send me a boy when you can recommend one, I'll put him in the office. And if he proves himself to be the right sort we'll make a broker of him."

They wanted no money—they wanted a bright boy.

Ultimately they got two. To-day one has developed into a smart authorized clerk dealing on a half-commission basis; the other is poring over accounts in the office—a fate which Heaven preserve from any boy of mine, for such work is a dull, monotonous grind which no man of enterprise should deserve.

Let us take it, however, that you are fortunate enough to be in a position to pay the larger fees, which will enable your son to become a member without much delay. Even in this case I would suggest that he be sent for a period into a stockbroker's office, for after a while he will be given a blue button indicating he is a clerk permitted to enter the House in order to obtain and check prices on behalf of his firm. This would enable him to get the atmosphere of the House. And he has, as a matter of fact, become more or less a stockbroker. The full step is merely a matter of time. After being admitted a member he will be able to develop personal associations with the firm's clients, and no doubt his friends will ask him to deal for them, and all the while he will be drawing a salary plus half the commission on the business he has done.

Jobber or Broker?

The difference between a jobber and a broker, from the investor's point of view, I have already indicated. Which is the more remunerative to adopt as a profession will be disputed by jobbers who envy brokers, and brokers who envy jobbers. The fact is, however, that there is less scope to make a place in the jobbing market, there being some hundreds of them, while the numbers of brokers are counted in thousands, and are increasing.

To become a jobber you must have considerable capital behind you. But there can be no doubt that he makes considerably more money than the broker. His work is the more speculative, and he takes the risks, while the broker, after all, is but an agent executing orders with no risk to himself.

Worrying Nature Barred.

The youth of a worrying nature should keep outside the House altogether; but the last profession he should enter is that of a jobber.

Estimating salaries of the two classes of members would be as misleading as trying to estimate the income of doctors or actresses! One is usually given as examples the few on the tip-top of the tree.

It is not hazarding too much, however, to say that the general run of broker earns on an average anything from £500 to £5,000 and more a year, while the jobber is content to rake in a paltry few hundreds on account!

The hours of members of the Stock Exchange are not too long—for the jobber, at any rate. A good many do not arrive at the House till eleven, and leave

promptly at four o'clock, as soon as the House closes—a not very long day. On the other hand, the enterprising broker who wishes to snatch advantages like the early worm, would get in at half-past ten and, when the House closes at four o'clock obtain the closing prices which he would religiously telephone to his clients.

Slack Periods.

The broker has his slack periods, of course, but on the average days he is kept well at it, and rarely has what is known as a set lunch. During a busy period it is often a great mental and physical strain, so that a boy should be of good health, and should arrange to continue his exercise in the form of sport. The advantages, on the other hand, are that the occupation is active, and one meets all sorts and conditions of men. Social position does not count in the House, and the best character a man may have is that he is of financial probity, that he will honour his obligations at all times. Stockbrokers are very keen in the up-take, and always have an eye on the main chance, but there is a code, a strict code, which forbids any underhand dealing. In no other business in the world, except one or two professions like the law, or medicine, has a man to maintain this code, and as I have said, a breach of it results in severe punishment.

APPENDIX I

MINIMUM SCALE OF COMMISSIONS

THE following are the rules laid down by the Stock Exchange Committee regarding commissions. The reader should take particular notice of rule 199 (Nos. 4, 5, and 6), which has been recently amended. Rule No. 4 only came into force in January, 1927.

192. The Minimum Scale of Commission, except as provided in Rule 203, is laid down in Appendix 39, but is not compulsory in the case of Underwriting or the placing of New Issues. Nor shall it apply to Continuations provided that a Broker shall charge or allow in respect of Continuation business a rate not more favourable to his Principal than that actually paid or received by him in the market, or if the Continuation is effected wholly or partially by the employment of his own resources a rate which shall be fair and reasonable having regard to the market conditions of the day. *Minimum Scale of Commission*

193 (1) A Broker shall render to a Non-Member a contract note in respect of every bargain done for such Non-Member's account, stating the price at which the bargain has been done. Subject to the provisions of Rules 88 and 90 such contract note shall contain a charge for Commission at a rate not less than the Scale as laid down in Appendix 39, or as modified by the provisions of Rules 192, 195, 196 (1), 197, or 203. *Contracts to be rendered and to set out price and Commission.*

(2) Subject to Rules 194, 203 (3) and 204 the Rules under the heading of "Commissions" do not lay down any restrictions as to dealings between Members. *Dealings between Members.*

(3) Except for business done under Rule 199 a Broker may render a net Contract Note provided Commission in accordance with Clause (1) of this Rule is charged and provided such Contract Note states that the Commission is allowed for in the price. *Net Contracts.*

194 A Broker may not act as a Principal for the purpose of evading these Rules, or adopt any other procedure for a like purpose, nor may he commute his Commission for a fixed payment or salary unless in each year he be specially authorized so to do by the Committee, nor may he divide profits or Commission with a Non-Member except as authorized by Rules 199, 200, and 201. *Commission Rules not to be evaded.*

Closing Transactions.

195 (1) A Broker may at his discretion charge only one Commission for buying and selling the same Security for the same Principal for the same Account, or for the Account immediately following, or for cash during the same Account or during the Account immediately following.

(2) Neither the reduced Commission allowed by Rule 197 nor the concession allowed by Rule 196 may be applied to bargains done under this Rule.

Change of Investments.

196 (1) On a change of investments for the same Principal during the same Account or the Account immediately following, a Broker may at his discretion, if the Securities have not been continued, charge Commission at a rate not less than the scale as laid down in Appendix 39 on one transaction and a reduced Commission of not less than half that rate on the other. The full rate must be charged on the side which yields the larger amount.

(2) The concession allowed by Rule 195 may not be applied to bargains done under this Rule.

(3) The provisions of Rule 197 may not be applied when Clause 1 of this Rule is used.

Transaction up to £2,500.

197 (1) On any transaction in which the consideration money is £2,500 or under, the full Commission laid down under Appendix 39 must be charged.

Transaction over £2,500.

In the case of a transaction in which the consideration money exceeds £2,500 full Commission must be charged up to that amount, but a Broker may, at his discretion (when in his opinion the volume of his Principal's business justifies it), charge a reduced Commission on the balance of the transaction, provided that in no case shall such reduced Commission be less than one-half of the Minimum Scale laid down in Appendix 39. The provisions of Rule 196 (1) may not be applied to this Rule.

Commission may be reduced in certain cases.

(2) In the case of a transaction in not less than £20.000 Stock of a Security of or Guaranteed by the British or Indian Government having a currency of not more than 12 years, a Broker may at his discretion charge a reduced Commission on the entire amount provided that in no case shall such reduced Commission be less than one-half of the Minimum Scale laid down in Appendix 39. The provisions of Rule 196 (1) may not be applied to this Rule.

When inapplicable.

(3) The reduced scales allowed by this Rule are not applicable when a Broker charges Commission under Rules 195, 196 (1), or Clauses (1), (2) and (4) of Rule 203, or when Commission is shared with an Agent under Rule 199.

(4) In the case of an order to invest or realize an amount of money in or from several Securities, each bargain the consideration for which does not exceed £2,500, must bear the full Commission, but should an order in one Stock, if above £2,500 consideration, be only partially executed, the Commission may be adjusted on completion of the order. Adjustment of Commission.

198 A Broker shall, subject to the provisions of Rules 88, 90, and 204 (4), charge Commission at not less than the Minimum Scale as laid down in Appendix 39 without modification to any Stock and Share Broker or Dealer in Great Britain and Northern Ireland and the Irish Free State, whether carrying on business in the form of a limited Company or otherwise, who advertises in the Public Press for Stock Exchange business or issues Circulars respecting such business to other than his own Principals, or who is a Member of any other institution within the London Postal Area, where dealings in Stocks and shares are carried on, and no allowance or rebate in respect of such Commission shall be made to such Broker or Dealer or any other person, but such restriction shall not apply to a Broker who remunerates a clerk in his own exclusive employment with a share of the Commission charged to such outside Broker or Dealer. Sharing Commission or giving rebates to outside Brokers forbidden. Commission may be shared with a Clerk.

199 [1](4) *A Broker may not share his Commission with an Agent who advertises for Stock Exchange business in the Public Press in Great Britain, Northern Ireland or the Irish Free State. A Broker may not share his Commission with an Agent who issues circulars in Great Britain, Northern Ireland, or the Irish Free State respecting Stock Exchange business to other than his own Principal.* Commission may be shared with an Agent on certain conditions.

(5) A Broker who shares Commission with an Agent shall render a Contract Note naming the Agent and stating that the Commission charged is shared with such Agent under the provisions of this Rule. Such Contract Note must not be rendered "net," and must show Commission at not less than the scale laid down in Appendix 39. Contract Notes rendered to Agents.

(6) In the case of a change of investments made under the conditions of Clause (1) of Rule 196 a Broker may share Commission with an Agent on both sale and purchase, provided that (except where such Agent is the Broker's Remisier or a Clerk in his own employment) the share of Commission actually retained by the Broker is not less than one-half of Change of Investments.

[1] *Came into force on the* 1st *January*, 1927.

the Minimum Scale laid down in Appendix 39 on the side yielding the larger amount, and on the other side not less than one-half of the reduced Commission allowed by Rule 196, Clause (1).

Commission may be shared with a Remisier.

200. A Broker shall be entitled to employ for the purpose of his business a Remisier resident outside Great Britain and Northern Ireland and the Irish Free State whose name is registered with the Committee in accordance with Appendix 40, and to remunerate such Remisier with a share not exceeding one-half of the Commission charged to the Principal he introduces whether such Commission be at the Minimum Scale as laid down in Appendix 39 or as modified by the provisions of Rules 195, 196 (1), and 197.

Commission may be shared with a Clerk.

201. A Broker may remunerate a Clerk in his own exclusive employment with a share not exceeding one-half of the Commission charged to the Principal he introduces whether such Commission be at the Minimum Scale as laid down in Appendix 39 or as modified by the provisions of Rules 195, 196 (1), and 197, provided that such remuneration is not shared by the Clerk with or allowed to his Principal.

202. A Broker shall not share Commission with a Dealer or a Clerk to a Dealer.

Special Commission for country Brokers.

203 (1) On any transaction for a Member of any Associated Stock Exchange in Great Britain and Northern Ireland and the Irish Free State, or a Stock Broker whose name is included in the "List of Stock Brokers in Great Britain and Northern Ireland kept by the Commissioners of Inland Revenue in pursuance of Sect. 77 (3) of the Finance (1909–10) Act, 1910," and who does not carry on business within the London Postal Area, such Broker not being excluded by the provisions of Rule 198, a Broker may at his discretion charge Commission at a rate not less than the scale laid down in Clause (4) of this Rule, and when orders for the same Principal for sale and reinvestment for the same Account are given simultaneously, Commission at a rate not less than the Scale laid down in Clause (4) of this Rule on both sale and purchase, or at a rate not less than one-half of the Scale laid down in Appendix 39 on one transaction and reduced Commission of not less than one-quarter of that rate on the other side. The higher rate must be charged on the side which yields the larger amount.

Change of Investments.

Minimum Commission.

(2) The Commission laid down by this Rule shall be the minimum Commission to be charged on all

business coming to the Stock Exchange from a Member of any Associated Stock Exchange or country Broker, as defined in Clause (1) of this Rule, except that a Broker may apply to such business the provisions of Rule 195. Such Commission shall not be shared with any one except a Clerk in the Broker's own exclusive employment. Such Clerk shall not under any circumstances either directly or indirectly divide or share his proportion of such Commission with or allow the same to such country Broker. Closing Transactions.

(3) A Broker shall not act as a Principal or send an order to a Member of an Associated Stock Exchange or country Broker for the purpose of evading the minimum Commission on such business, nor shall he adopt any other procedure for a like purpose. Any evasion will be treated as a breach not only of this Rule but also of Rule 87, which prohibits shunting. Evasions.

(4) On transactions for Brokers as defined in Clause (1) of this Rule a Broker may at his discretion charge a reduced Commission at the rate of not less than one-half of the rates laid down in Appendix 39, and further he may charge the following exceptional reduced rates, viz.— Scale.

(*a*) Registered Stocks—

Price	£50 or under . .	$\frac{1}{16}$% on Stock.
Over	£50 to £100 . .	$\frac{1}{8}$% ,, ,,
,,	£100 to £150 . .	$\frac{3}{16}$% ,, ,,
,,	£150 to £200 . .	$\frac{1}{4}$% ,, ,,

With $\frac{1}{16}$ rise for every £50 in price.

(*b*) Shares of \$50 or \$100 Denomination dealt in in the American Market.

Price	\$50 or under . .	3d. per Share.
Over	\$50 to \$100 . .	4½d. ,, ,,
,,	\$100 to \$150 . .	6d. ,, ,,
,,	\$150 to \$200 . .	9d. ,, ,,
,,	\$200 . . .	1s. 0d. ,, ,,

The provision of Rule 196 (1) may not be applied when the exceptional reduced rates allowed by this Rule are charged.

204. For the purposes of administering the Commission Rules.

(1) A Broker, when transacting business between a Dealer and a Member of the Public, shall be considered as acting as the Agent of the Non-Member. Business between Dealer and Public.

(2) The remuneration of a Broker when transacting business between a Dealer and a Country Broker who is entitled to the privileges of Rule 203 must in Between Dealer and Country Broker.

no case be less than the minimum rate laid down in Rule 203.

Between Dealer and person excluded by Rule 198.

(3) A Broker, when transacting business between a Dealer and an outside Broker or Dealer who is excluded by the provisions of Rule 198, must always charge the latter with full commission as laid down in Appendix 39.

Between Country Broker and person excluded by Rule 198.

(4) Subject to the provisions of Rule 90, a Broker, when transacting business between a Country Broker who is entitled to the privileges of Rule 203 and an outside Broker or Dealer who is excluded by the provisions of Rule 198, must charge the full commission as laid down in Appendix 39 to the latter and none to the former.

Minimum Scale of Commissions

Securities of or Guaranteed by the British or Indian Government having a currency of not more than Twelve years, in bargains of not less than £20,000 Stock	$\frac{1}{8}$ per cent on Stock.
Consols, $2\frac{3}{4}$ % and $2\frac{1}{2}$ % Annuities	$\frac{1}{16}$ „ „ „ Stock.
Other British Government Securities Indian Government Stocks Metropolitan Consolidated Stocks London County Consolidated Stocks Colonial Government Securities County, Corporation and Provincial Securities (British, Indian, or Colonial)	$\frac{1}{4}$ „ „ „ Stock.
Bank of England and Bank of Ireland Stock	$\frac{1}{4}$ „ „ „ Money.
Foreign Government and Corporation Bonds. Price 1 or under Foreign Railway and other Bonds to bearer. Price 1 or under	At discretion.
Foreign Government and Corporation Bonds. Price 5 or under Foreign Railway and other Bonds to bearer. Price 5 or under	$\frac{1}{32}$ per cent on Stock.
Foreign Government and Corporation Bonds. Price 10 or under Foreign Railway and other Bonds to bearer. Price 10 or under	$\frac{1}{16}$ „ „ „ Stock.
Foreign Government and Corporation Bonds. Price 20 or under Foreign Railway and other Bonds to bearer. Price 20 or under	$\frac{1}{8}$ „ „ „ Stock.

Foreign Government and Corporation Bonds. Price over 20 . . . . Foreign Railway and other Bonds to bearer. Price over 20	¼ per cent on Stock.
Registered Stocks	½ ,, ,, ,, Money.

Shares, Registered or Bearer (other than Shares of $50 or $100 denomination dealt in in the American Market).

	£	s.	d.		£	s.	d.		s.	d.	
Price		1s. or under						. . .			At discretion.
Over		1	–	to		2	–			0½	per Share.
,,		2	–	to		3	6	. . . .		0¾	,,
,,		3	6	to		5	–	. . .		1	,,
,,		5	–	to		15	–	.		1½	,,
,,		15	–	to	1	10	–	.		3	,,
,,	1	10	–	to	2	–	–	. .		4½	,,
,,	2	–	–	to	3	–	–	.		6	,,
,,	3	–	–	to	4	–	–			7½	,,
,,	4	–	–	to	5	–	–	. .		9	,,
,,	5	–	–	to	7	10	–	. .	1	–	,,
,,	7	10	–	to	10	–	–		1	3	,,
,,	10	–	–	to	15	–	–	.	1	6	,,
,,	15	–	–	to	20	–	–		2	–	,,
,,	20	–	–	to	25	–	–	. . .	2	6	,,
,,	25	–	–					. . .			½ per cent on Money.

Shares of $50 or $100 Denomination dealt in in the American Market.

			s.	d	
Price	$5 or under	. . . .			At discretion.
Over	$5 to $25	. .		6	per Share.
,,	$25 to $50	. . . . . .		9	,,
,,	$50 to $100	. . . .	1	–	,,
,,	$100 to $150	. . .	1	6	,,
,,	$150 to $200	. . . . .	2	–	,,

With 6d. rise for every $50, or portion thereof, in price.

Options for more than one Account . .	As on bargains.
Options for one Account or Less . . Bargains in partly-paid stock or shares of New Issues . . . . . . Bargains in Rights for Cash . . Powers of attorney for Inscribed Stock . Probate and other Valuations . . . Securities Made-up or Made-down . . Short-dated Securities (having Five Years or less to run) . . . . Transfers of Stocks and Shares . .	At discretion

Small Bargains — No lower Commission than £1 to be charged except in the case of—

(*a*) Transactions amounting to less than £100 in value on which a Commission of not less than 10s. must be charged, or

(*b*) Transactions amounting to less than £20 in value on which a Commission of not less than 5s. must be charged.

Contract Stamps

Where the value of the stock or marketable security—

Is £5 and does not exceed £100 Sixpence

Exceeds	And does not exceed		Exceeds	And does not exceed	
£100	£500	One shilling	£7,500	£10,000	Ten shillings
500	1,000	Two shillings	10,000	12,500	Twelve shillings
1,000	1,500	Three shillings	12,500	15,000	Fourteen shillings
1,500	2,500	Four shillings	15,000	17,500	Sixteen shillings
2,500	5,000	Six shillings	17,500	20,000	Eighteen shillings
5,000	7,500	Eight shillings	20,000	—	One pound

Transfer Stamps

Consideration not exceeding £	Amount £	s.	d.	Consideration not exceeding £	Amount £	s.	d.
5		1	–	175	1	15	–
10		2	–	200	2	–	–
15		3	–	225	2	5	–
20		4	–	250	2	10	–
25		5	–	275	2	15	–
50		10	–	300	3	–	–
75		15	–	350	3	10	–
100	1	–	–	400	4	–	–
125	1	5	–	450	4	10	–
150	1	10	–	500	5	–	–

and so on at the rate of 10s. for every further £50 or fractional part of £50

APPENDIX II

INVESTMENTS BY TRUSTEES

THE chief provisions of the Trustee Act of 1925 which lays down clearly the kind of stock in which a trustee may invest the funds under his control are as follows—

TRUSTEE ACT, 1925

Under Section 1 of the above Act, Trustees may invest in the following—

(a) Government Securities, Public Funds, or Parliamentary Stocks of the United Kingdom. (e) Securities the interest of which is guaranteed by Parliament, and (d) Indian Government Securities.

(c) Bank of England Stock. Bank of Ireland Stock.

(f) Metropolitan Board of Works Stock, London County Council Stock, Metropolitan Police and Metropolitan Water Stocks.

(g) Debenture, Rent Charge, Guaranteed or Preference Stocks of any Railway in the United Kingdom, if the dividend for the last ten years has been not less than 3 per cent per annum on the Ordinary Stock.

(h) Stock of any Railway or Canal Company under (g).

(h) Stock of any Railway or Canal Company, leased for not less than 200 years at a fixed rent to any Railway Company under (g).

(i) (k) Debenture Stock of any Indian Railway, the interest on which is paid or guaranteed, or (k) other Stock on which a fixed or minimum dividend in sterling is guaranteed, by the Indian Government, or upon the capital of which the interest is so guaranteed.

(j) "B" Annuities of Indian Railways, and any like Annuities charged on the revenues of India, also in "D" Deferred Annuities and "C" Annuities of the East Indian Railway.

(l) Debenture, Guaranteed, or Preference Stock of any incorporated Water Company in Great Britain which has for the last ten years paid a dividend of not less than 5 per cent per annum on its Ordinary Stock.

(m) Municipal Stocks of towns of over 50,000 inhabitants, or County Council Stocks issued under Act of Parliament or Provisional Order.

(n) Water Trust Stocks of towns or compulsory districts of over 50,000 inhabitants where assessment for each of the last ten years has not exceeded 80 per cent of the amount authorized.

(o) Stocks authorized under the Colonial Stock Act, 1900, or any subsequent Act extending the same, but subject to any restrictions thereby imposed.

(p) In any local bonds issued under the Housing (A.P.) Act, 1919.

(q) In any Stock issued by the Government of Northern Ireland.

(*r*) In any of the Stocks or Securities for the time being authorized for investment under the control or subject to the Order of the Court,

and may also from time to time vary any such investment.

Under Section 2 sub-section (1) a trustee may invest in any of the securities mentioned or referred to in Section 1 of this Act, notwithstanding that the same may be redeemable, and that the price exceeds the redemption value, provided that in the case of any stock mentioned or referred to in paragraphs (*g*), (*i*), (*k*), (*l*), (*m*), (*o*), (*p*), and (*q*) of sub-section 1 of this Act, which is liable to be redeemed at par or at some other fixed rate, a trustee shall not be entitled to purchase the stock—

(*a*) at a price exceeding fifteen per centum above par or such other fixed rate; nor

(*b*) if the stock is liable to be so redeemed as aforesaid within fifteen years of the date of purchase, at a price exceeding its redemption value.

APPENDIX III

BOARD OF TRADE RECOMMENDATIONS IN REGARD TO SHARE HAWKERS

A COMMITTEE was appointed by the Board of Trade in 1925 to consider amendments desirable in the Companies Acts, 1908 to 1917, and in its report makes important recommendations to combat the activities of share hawking swindlers whose practices have become notorious of late.

The committee recommended that—" the offering from house to house of shares should be made an offence punishable by a heavy fine, or, if a second or subsequent offence be committed, imprisonment.

Similar punishment is recommended where a person in writing offers shares for sale and does not at the same time supply a statement of prescribed particulars or supplies a false statement.

One of the prescribed particulars is whether or not the shares are quoted on, or permission to deal therein has been granted by a recognized stock exchange.

The provisions are intended to cover offers of " units " representing a share or a fraction of a share.

The committee consider that a court before whom an offence is tried might be given power to declare any contract void, and to order repayment of any money paid.

The principal other recommendations of the committee are—

No company should, without the consent of the Board of Trade, be registered with a name including the words " bank " or " banking."

The necessity for two meetings for a special resolution should be abolished.

In " offers for sale " where the directors know there is going to be a public offer, they should be under the same liability to see that the public has proper information as they would be if the company itself were issuing a prospectus.

Any provision whereby a director or other officer is to be excused from liability for negligence or breach of duty or trust should be declared void.

Shareholders representing 25 per cent of the voting power should be declared void.

Shareholders representing 25 per cent of the voting power should have the right to requisition a statement of the remuneration paid to directors.

No undischarged bankrupt should be permitted to be a director or to be in any way concerned with a company without the leave of the Bankruptcy Court. Any breach should be punishable by imprisonment.

Under the present law there is no direct statutory obligation on a company to keep proper accounts. The committee consider that the law should be altered so as to make the keeping of such accounts compulsory.

The present facilities to shareholders for obtaining copies of the balance-sheet and directors' and auditors' reports are considered insufficient.

An amendment of the law is required to give creditors effective control of voluntary liquidation where the company is insolvent. At present many matters are left to the shareholders who have no real interest in the winding-up.

The existing law as to stamp duties imposes a heavy burden in cases of reconstruction. Where the shareholders in the old and the new company are substantially the same, there can be no justification for charging *ad valorem* duty on so much of the capital of the old company on which duty has already been paid.

The effect is in substance a double taxation which places a heavy and, in the committee's opinion, unjustifiable burden on industry, and seriously interferes with the beneficial process of reconstruction.

The committee recommend that on a reconstruction under which at least 90 per cent of the original capital of the new company is held by shareholders in the old company—

(*a*) No *ad valorem* stamp duty should be charged on the transfer of property of the company to the new company.

(*b*) *Ad valorem* stamp duty on the capital of the new company should only be charged on the amount by which such capital exceeds the capital of the old company.

This recommendation would apply also to amalgamations where 90 per cent of the capital of the new company is held by shareholders of the amalgamating companies.

The court should be given power to sanction schemes for the amalgamation of two or more companies without the necessity of either of any of them going into liquidation.

APPENDIX IV

GLOSSARY OF STOCK EXCHANGE TERMS

Account . .	The period existing between two settlement days.
Ad Valorem Duty	A stamp duty charged according to the actual value of the security.
Averaging . .	Selling or buying further stocks or shares at a figure which averages the price more favourably to the holder.
Bear . . .	One who believes prices will go lower or a speculator who sells securities he does not possess in the hope of being able to purchase them at a lower price before he is called upon to deliver them.
Berwicks . .	The Stock of the London and North Eastern Railway.
Bonus . .	Cash or scrip issued to shareholders.
Boom . .	A general demand at the same period for certain securities which creates an atmosphere of bullishness, and thereby forces up the prices.
Broker . .	The agent or member of the Stock Exchange who buys and sells on behalf of his clients on a commission basis.
Brokerage . .	Broker's commission.
Brums . .	The ordinary stock of the London Midland and Scottish Railway.
Bull . . .	One who " sees " stock higher or a speculator who purchases securities in the hope of being able to sell at a profit before the end of the account.
Buying in . .	A process by which a buyer enforces delivery of securities when the seller has failed to deliver them within the stated time.
Calls . . .	Are usually made by companies for such instalments on stocks or shares which are not fully paid.
Call Option . .	The right to buy certain securities on a certain date at a price agreed upon beforehand.
Carrying Over .	Carrying over securities from one account to another, thereby postponing the actual settlement of a purchase or a sale. Technical term—Contango.
Cgo. . . .	Contango.
'Change . .	An abbreviation of Exchange.
C/m . . .	Call of more.
C/o . . .	Carried over.
Contango . .	The rate of interest demanded by the seller for carrying over securities.

Contango Days . Days—usually first day of settlement—named by the Stock Exchange Committee upon which contangos must be settled.

Contract . . A stamped note detailing the business transacted by the broker on behalf of the client. Usually sent on same day as transaction.

Coupon . . An interest voucher for certain periods which are attached to stocks. The holder should cut these off only when payment is due, when they should be presented at the bank.

Cover . . . A security in cash or kind deposited with a bank or broker when stocks or shares are purchased without being fully paid for.

Cum-Div. Cum means "with." Div. means dividend. Therefore cum-div. means with the right of securing the dividend when it is distributed.

Debenture . Debentures rank first in a company's share capital.

Declaration Day . The day on which one must declare whether he wishes to exercise or abandon an option.

Discount . . The opposite to "premium." A share standing at a lower price than that at which it was originally issued.

Ex-Div. . . Ex means without; div means dividend. Therefore ex-div. means stocks or shares in which the purchaser has no right to the dividend, but where a seller retains a dividend.

House . Abbreviation for Stock Exchange.

Jobber or Dealer A member of the Stock Exchange who deals exclusively with brokers or other members, and not directly with the public.

Limit . . . A client "limits" his broker for the purchase or sale of securities when he wishes to deal at a fixed price.

Lock-up . . A security with favourable prospects but which is not expected to have an early rise, and therefore should be "locked away."

Making-up Prices Official prices fixed by the Stock Exchange Committee as a guide for the temporary settlement of open bargains.

Middle Price The price quoted by a dealer or jobber between the buying and selling price.

Official List . The Stock Exchange Official List, published in part or fully in financial and other daily newspapers.

Options . . See CALL OPTIONS.

Outside Brokers . Brokers who are not members of the Stock Exchange or of the Association of Provincial Stock and Share Brokers.

Par . . The nominal or face-value of a security. Usually

	the issue price. When such prices are higher than the issue price originally paid for them they are said to be at a premium, or above par. When the price is lower than that originally paid it is said to be at a discount, or below par.
P/M . .	Put of more.
Rig . .	A false or artificial attempt to force up the price of the stocks or shares without genuine cause.
Settlement .	The fortnightly or three-weekly period at which accounts are settled either by securities being taken up and paid for or by being carried over.
Slump . .	When markets are bad and everybody is selling.
Souths . .	The Stock of the Southern Railway.
Tintos .	Rio Tintos shares.
Westerns . .	The Ordinary stock of the Great Western Railway.
X.C. . . .	Ex-*coupon*.
X.D. . . .	Ex-Dividend.
X.New . .	Ex-New.

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PRINTED IN GREAT BRITAIN AT THE PITMAN PRESS, BATH
B7²—(6066)